Credit
AND FINANCIAL MANAGEMENT

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CHECK & PASS

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AND FINANCIAL MANAGEMENT

Contents for January, 1942

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"Remember Pearl Harbor!"

MY Dad once said to me: "Henry, I hope you are fortunate enough to get plenty of hard knocks while you are young." He didn't mean just that. He was trying to tell me that a measure of adversity in youth builds for character and determination in manhood.

For us, as a nation or as individuals, that holds true.

If we had to have blows inflicted by a ruthless and treacherous enemy, regretful as we are of the experience, and saddened as we must naturally be at the loss of life, in the end it is better that we suffered these blows early. Each blow steels our determination; each loss of life by a fellow American makes us turn more grimly to our task.

We know that in the end military victories are won on economic strength—and a united resolve to use that strength. Economically we are the strongest nation in the world. And our resolution is complete. The method, the treachery of the attack on Pearl Harbor have given us the resolution to carry through to victory.

We are fighting the battle of civilization. No sacrifice in such a cause can be too great.

Today Japan and its Axis Allies may not realize that this nation, when shocked into action, has but one mind, one thought, and one objective. Tomorrow they will know the cost of treachery—for pay they must. Were it otherwise, naught would be worthwhile.

Our high resolve to cap our battle with victory is best expressed in those stirring words of George Washington at Valley Forge:

"Soldiers, American soldiers, will despise the meanness of repining at such trifling strokes of adversity. Trifling indeed when compared with the transcendent prize which will undoubtedly crown their patience and perseverance, glory and freedom, peace and plenty to themselves and community—the admiration of the world, the love of their country and the gratitude of posterity."

Henry H. Heimann
Executive Manager, N.A.C.M.

Important Credit Problems for 1942

A Sellers' Market Brings Opportunities for Improvements

BY E. B. GAUSBY,
Credit Manager, The Warner & Swasey Co., Cleveland

The start of the New Year would not be quite complete without a discussion on this particular subject. It is a popular topic, since it usually provokes general discussion and stimulates careful thinking on the ideas presented. It is perfectly logical that such should be the case. Only by comparing past experiences and future plans with others in our particular field can we grow and develop into better credit executives. Only as we stop to clearly analyze and fully understand our problems can we appreciate just what course of action may be advisable to correct the situation with which we are faced.

Usually the presentation of this subject follows about the same pattern because the same credit problems or abuses of sound credit policies are always with us. At any one time they may come in a slightly different form, or during some periods they may be intensified because of conditions. All in all, though, the problems that faced us a few years ago are the same ones that we are concerned about today. Likewise, sound constructive solutions to these problems follow about the same line of thought year after year.

If such be the case, it would appear as though we were getting nowhere or at best making only slow progress. To a great extent that is just what has taken place in the past. Of course, there are always exceptions, but for the most part we discuss policies or a particular phase of a problem, agree on the procedure that will correct or best remedy the situation, and then go on doing little or nothing about it. The alibi that is forthcoming is that management will not approve any change in company policy. What really happens is that we make a half-hearted attempt to sell our ideas, are not immediately successful, give up, and go back to the old way of doing the job without too much additional thought on the problem until New Year's comes around again.

It is an old cry that management has not given the credit manager proper recognition and the place in the sun that he thinks he deserves. To a certain degree that can be attributed to poor salesmanship on our part. To a much greater extent this situation arises, from the emphasis that sales play in the everyday thinking of company executives. Generally speaking, executives recognize the soundness of our thinking and appreciate the wisdom of our ideas on credit matters. In borderline cases they do not adopt our suggestions because of a possible reaction on sales.

Are We Poor Salesmen?

THIS is perfectly natural, since many executives come up through the ranks with training in sales rather than the financial departments. Even where such is not the case, we must always remember that in the last analysis sales are the life-blood of any business. For these two reasons, sales departments over a period of years have had more influence than has the credit department. Thus it results that during normal periods the credit manager will usually come out second-best on his recommendation if there is any possibility of customer reaction that might be reflected in the sales curve.

Today, we are not in a period of normal operations, and conditions are different than they have been for a long time. Just how long the present situation will last, no one knows, but it is the opinion of well-informed people that the present rate of activity will continue for some time. For this reason, I will not cover the specific problems that we all have discussed many times before, nor will I attempt to outline in detail the various remedies or solutions that we are quite familiar with. But I will suggest a general course of action which can be successfully carried out at this time because of the present seller's market, a market that is likely to continue for months or possibly years. For this reason, the period under discussion will cover not only the new calendar year, but also the additional time during which we find a set of circumstances favoring the seller rather than the buyer.

Time to Really Do Something

THE only real solution to our problems, be what they may, is an aggressive course of action that will remedy the situation. In other words, do not just talk about it—rather, go out and do the things that have to be done. Where we have an intelligent, well thought out corrective plan, and when our ideas are fundamentally sound, then this is the time to inaugurate our program. Under ordinary conditions, management is primarily interested in sales, for sales make possible the volume production that results in profits. Today, capacity operations are assured. Now management's emphasis is to protect profits that have been earned and to safeguard the potential profit in its backlog of unfilled orders. Management is carefully selecting, from the new business that is offered, the type of orders that best fit into present production schedules. For example, some are now refusing orders involving special work; some are now producing only part of their regular line of products and are concentrating on these few items; some have eliminated certain lines that ordinarily are not profitable, or the situation has been adjusted by corrective price increases. Such changes in policy are all closely tied in with sales. Fear of possible customer reaction has delayed these adjustments for a long while, but management is now willing to go

ahead, because it can safely do so under present conditions. If financial and sales executives are now willing to revise sales policies, is this not the time for us to do the same thing on credit policies.

I believe thoroughly that this should be done. When only minor changes are involved, management is too occupied with other important problems to be willing to take on further responsibilities, and you can make a start without any delay. If a drastic change is contemplated, approvals will be required. But today, management can view your suggestions on the basis of the soundness of the proposal rather than having to emphasize the possibility that some of your customers may actually decrease or stop their purchases from your company. For the first time in years, this will not cause too much concern.

The Management Viewpoint

MANAGEMENT knows that there is additional business to be secured, and easily secured, that will more than make up for the small amount that might be lost. Furthermore, they realize that the orders that will be retained will be of a better class and from a sounder group of customers. The sales department feels the same way. During this period they do not want to spend time trying to work out ways and means of carrying a borderline class of accounts. Under normal conditions, salesmen are willing to secure information, work out the details, and possibly even make special collection attempts themselves so as to maintain or increase sales volume. Today, they do not look at it the same way. In some cases they have even gone so far as to regularly contact their credit department before taking time from important and financially sound customers to work on a situation that they fear may prove troublesome at a later date.

This is an entirely new sales and financial picture that is now before us, one that makes it imperative for us to go forward with a program that is not new but is one that has been carefully thought out and considered and developed over a period of years. One that up to now we have never been able to properly present to management and secure their approval. Whether management has not agreed to our policies in the past, is not the important point to keep in mind. What we must remember is that the present situation is an ideal one for the establishment of policies and the completion of the program in which we are interested. If we cannot make progress along this line under present conditions, then we might just as well acknowledge the fact that we are not doing a proper job as credit executives.

With this thought in mind, let us examine a little more closely the particular problems which are with us at the start of the year 1942. These have been grouped under three general headings; namely, the value of the credit manager, revising credit policies, and a credit policy for 1942.

Our Big Opportunity Is in 1942

MUCH has been said relative to the position of the credit manager in his company. It has been pointed out that in many cases he is little more than an office clerk or bookkeeper. There is some evidence that many feel they do not command the proper remuneration as compared to other department heads. Others complain that they are allowed only a certain amount of responsibility and that they dare not step beyond those bounds without being taken to task for being so presumptuous. Any or all of these charges may be applicable to the past, but the immediate future will present an opportunity that will not be repeated for a long while.

Just as there is a crying need for skilled workers in the factory, so is there just as great a demand for trained people in the office. Concerns are seeking men with financial experience to take increasingly important positions of responsibility. Let us assume that we have done our work well in the past; let us assume that we have proved our ability to think clearly and intelligently; finally, let us assume that we have and are willing to go out of our way to find new work to do and added responsibilities to shoulder. If in your case and in mine, these assumptions are statements of fact, then the question of salary, position and full recognition of your worth will automatically take care of itself. By this I do not mean to imply that you will be made president of your company over night. It is extremely likely, though, that you can rather quickly improve your present position if you will show management that you can adequately handle certain responsibilities that have never previously been passed along to you. Who but the credit manager should be better equipped to handle many more of their problems. If by extra reading, additional study, and a willingness to work really hard, you have

The ???? In Every Credit Executive's Mind

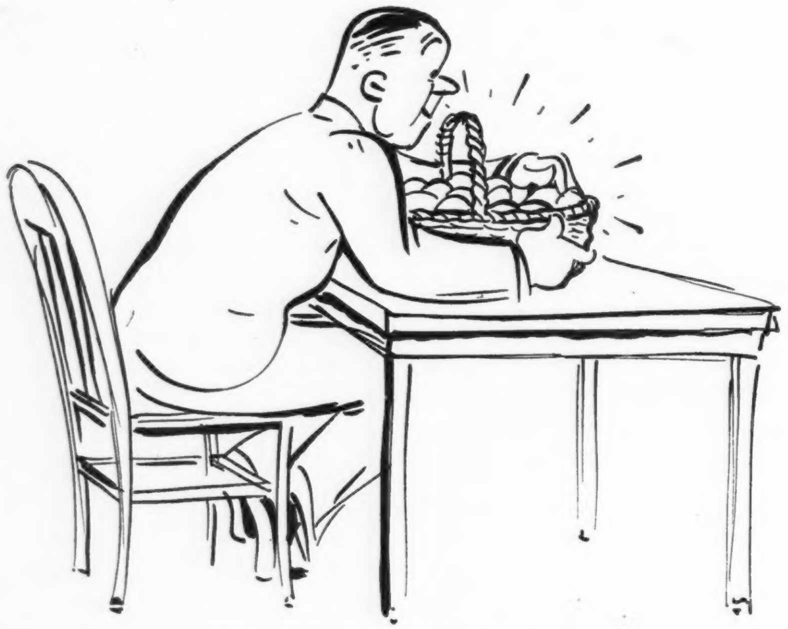
made it plain that you have kept abreast of the times are are well equipped to lighten their load, you can expect to have many new duties thrust upon you.

Strict Adherence to Policy

THE second general problem which should be tackled has to do with changes in policy or with enforcing a strict adherence to policies now in effect. Many of the minor and irritating problems that confront us day after day fall into this category. I refer to such items as the cash discount, the various abuses of the cash discount, unreasonable adjustments and allowances, the matter of special terms, terms chiseling, extension of credit for unwarranted periods of time, the idea of having to sell terms in addition to selling the product, customer refusal to furnish financial information, the insistence upon reasonably prompt payments, etc., etc.

Possibly some of you may object to my including as "minor" some of the items listed. Their importance varies with industry practice or the policy of individual companies. But generally speaking, the headings in this category are relatively less important than some of the other problems that you have to face. To me, the real significance is the relationship that these bear to more important problems. In other words, how can you expect your customers to comply regularly with definite rules if the rules change from day to day depending on the particular policy that is involved. How can you strictly enforce certain policies but pursue a lax and half-hearted procedure on others. In any event, there is neither the time nor the need to discuss each of these problems or abuses at this point. Let us pick out one of them and analyze it, keeping in mind that the same analysis and remedies and procedure will apply to all of them.

Perhaps there has been more discussion over a period of years on the cash discount and the abuses of the cash discount than any other one of the items mentioned. Please remember that I am not necessarily advocating that the cash discount as such should be abolished from your selling terms. In certain situations there is a real need and a definite advantage to all parties concerned to have discounts available. What I do refer to is the situation where a change should be made, but nothing has been done for fear of antagonizing a few customers or for fear of a temporary competitive loss. The same may be said about the abuses that are condoned by management over your protest because of fear of what might happen saleswise if a strict enforcement policy was invoked.



Keep Your Eggs In One Basket—and Don't Let Anyone Jiggle the Basket!

Change Brings Few Difficulties

HERE and there we learn about individual companies that in normal times have either changed terms or have started to enforce quite strictly and impartially the discounts offered. In every such case that I know of, the change-over has been made without very much trouble, without any particular criticism and without the loss of any significant amount of business. Even in those cases where some orders have been lost, the benefits received have more than outweighed any lost sales. Therefore, if one finds a serious problem of this nature, he should approach management again, carefully go over the advantages to be received from such a change, and suggest that the revision be carried out at this time. As previously indicated, executive management and your sales department will listen more attentively than they ever have before. If a change is agreed on, minor difficulties can be ironed out and there will still be a period of many months or possibly years in which to establish the new terms in your trade. Then when sales once again become all important, your company will have had the opportunity to see the benefits from the improved policy and quite likely will not revert to the old unsound practices.

In short, actually do something about these problems, rather than just think about them. From this do not infer that I suggest a clamping down on some customers only because their manner irritates you. It must be more than just a personal feeling before a revision in terms or policy is justified. But where a changed policy seems advisable and impartially affects all customers, I feel quite strongly that this should be done now, at the suggestion, the responsibility, and under the supervision of the credit manager. While in today's market such a change could be forced by a "take it or leave it" policy, this is not the procedure to be followed. This would create lasting ill will that would come back on your shoulders at a time when you are anxiously seeking new business. However, if the switchover is done carefully, diplomatically and perhaps gradually, it should not result in more than the temporary irritation of a few of your customers whose purchasing volume probably is not sufficiently large to worry anyone.

Our third general problem is the most important of them all. This has to do with a credit policy, not only for 1942, but for however long this present market continues. Briefly, what can we do today to prepare for the future. Although every signpost points toward a continuation of a high rate of activity for some time to come, no one can guarantee this for us. We all appreciate that the collapse, when it comes, will give us little or no warning and may be severe in our particular industry. Consequently, the only way that we can properly protect ourselves and our company is to assume that this collapse may occur at any moment. With this in mind, we must make our plans for this eventuality just as carefully and as quickly as we can and so be prepared for whatever may happen.

Tighten Credit Policy Now

THE general tendency is to reduce credit requirements, relax collection pressure and ease up all the way along the line when times are good. This is particularly true when business is accelerating. Usually the reverse is also true in that when business drops off, credits are more closely analyzed, collection follow-up is more vigorous, and there is a definite tendency toward a restriction of credits. To me this whole procedure should be changed about. It is during a period such as this that we should make a more careful study of the credits that are offered. Our collection follow-up should be most persistent and our terms should be tightened up considerably. Indeed, a definite tendency toward a restriction of credit should be evident. Marketwise, this policy can be successfully pursued at this time. More important, it will result in a building up of reserves that can be made available at a later date. Then when orders are hard to get, when terms again enter the competitive picture, you will be in a position to offer extended terms and other special credit concessions.

No Need for Pampering

WHEN our customers are operating at high levels and making profits, they are or should be in a position to pay promptly on standard terms of sale. They should not require extended terms, seasonal datings or other special terms of any kind. In this manner they meet a depression period with their payables up-to-date and without a heavy debt hanging over their heads. From our viewpoint, receivables are not frozen and can be liquidated in an orderly manner. Naturally, it is up to us to see that our customers do keep within bounds, at least as far as our accounts are concerned. "Customer education" on some of these points will help accomplish the desired result. Perhaps some pressure will sometimes be necessary, but if the customer does not care if he builds up such a debt during prosperous times, then we should be even more concerned about having his account kept right up to the minute.

Collections should be speeded up just as much as possible, and will result in a two-fold benefit. First of all, it will assist our treasurers by providing working capital for day-to-day requirements. Secondly, it will help us considerably when the peak is reached and passed. The simplest explanation of this point is an example to show exactly how it works out. Assume that monthly collections average about $250,000. Using a twenty-five-day working month, this means that daily receipts would average about $10,000. If we are able to speed up collections by even 24 hours, it means that at all times our treasurers have an additional $10,000 with which to finance expanding operations. What is of even greater importance is that when there is a drop-off in activity and receivables tend to freeze, there will be $10,000 less for us to worry about. Similarly, in a large concern where receivables run $2,500,000, then for every day that is gained, we have provided an additional $100,000 in liquid capital and there is $100,000 less to worry about at some future time.

Shorten the Collection Period

IF the average collection period is lowered by several days, the amount involved becomes substantial in the case of a small company and assumes rather fantastic proportions in the case of a large concern. We will all have enough worries when this present boom collapses without adding to the load, and whether total receivables are large or small, the same relative improvement is possible. Every credit manager probably could shorten his average collection period by at least several days. Some results can be achieved by a reasonable but firm insistence upon better paying habits from customers that are habitually slow, and a consistent determined effort to bring these people into line will pay big dividends. Not only will it influence collections, but the open balances on these borderline or hazardous accounts will be substantially less than if you continue to let them pay when, if and as they feel like it.

However, there is a much easier way to improve collections. True, it involves us with extra time and effort, but the beauty of it is in the fact that while we are benefiting, so is the customer. It does not involve negotiations of a controversial nature and customers will appreciate the help you have given. I refer to a policy of making certain that all of the details surrounding every order are taken care of exactly as requested; such things as invoicing, routing, notice of shipment, handling of bills of lading, etc.

Let us examine, for a moment, this matter of invoicing. Current billing instructions in most cases are suddenly quite different from what we have become accustomed to over a period of years. This is due to the many new accounting and auditing procedures that arise from government requirements. For example, The John Jones Company used to require one priced original invoice and three unpriced duplicates. Our setup was such that they automatically received the right number of copies. All this has been changed and varying instructions now appear on individual orders. Furthermore, it used to be that if one did not exactly follow instructions, the customer was not so busy but that he could easily make up the extra copies needed or make the necessary corrections. He would have the time and the personnel to figure out the prices shown on your invoice, if for any reason they did not exactly correspond to the original purchase order. Today, your customer has neither the time nor the inclination to do this extra work. Even if he were willing, the checking is often handled by new employees or by government auditors that have no idea as to the pricing of your product or the practices in your industry. The result is that if your invoice does not

(*Continued on page* 30)

Priorities Warn of Fire Losses

Difficult to Rebuild With Materials Restricted by Defense

BY FRANK W. YOUNG

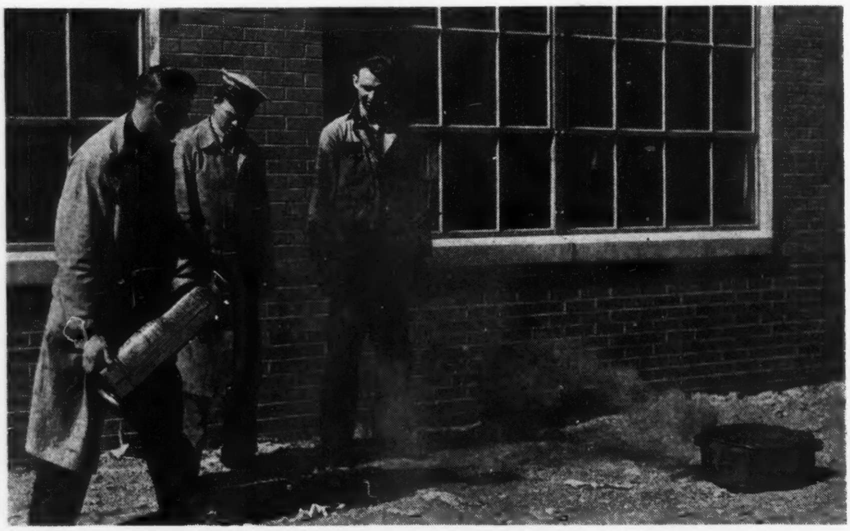
Secretary, The Travelers Fire Insurance Company

Credit men have long been familiar with the ruinous effects of fires upon the financial standings of individuals, mercantile and manufacturing concerns, and indeed of entire communities. Even in normal times the effects of fire losses, both direct and indirect, have been a major problem in American industry. A survey conducted some time ago reveals that of 100 manufacturing or mercantile establishments burned out, 43 never resumed operations, 26 registered severe monetary reverses, 17 failed to issue a financial statement, and 14 suffered definite and extensive reductions in credit rating.

Naturally anyone associated with the fire insurance business is an ardent exponent of fire prevention. We get reports of the causes of fires occurring daily throughout the country, and the tremendous amount of property destroyed. We realize that a very large part of this loss of the world's wealth is caused by carelessness, and could be saved if more attention was paid to fire prevention. You may think that fire insurance companies have a selfish interest in the reduction of fire losses on the basis of the fewer the fires the smaller the losses to be paid. It does not work out just this way. The lower the losses, the lower the rate, and the less premium, which makes our income less for the same liability. For this reason we in the fire insurance business believe the public should have a selfish interest in fire prevention because it does pay dividends in lower insurance cost.

Prevention—A National Asset

DURING the past thirty-five years fire insurance companies have been able to lower the average yearly cost of $100 worth of fire insurance from $1.19 to 67c. This was brought about largely by the public's interest in fire prevention, which resulted in better construction, protection, and housekeeping. If there is no trash or rubbish around, there is not the opportunity for a fire to feed so quickly. Fire prevention should make everyone happy, and add tremendously to our national resources.



Be Ready! Get the Fire Out Quickly! Keep Destruction by Fire and Water to a Minimum.

It takes a fire to demonstrate the virtues of fire prevention. Today the world is afire—in many places in a literal sense. When Herr Schicklgruber, with his vision of world domination, forced the United States into the international armaments marathon, he did something that placed us all in a new and uncomfortable situation.

There was a time when one could start anew after he had experienced a fire, with more or less definite assurance of replacing his ruined property by means of insurance benefits. But those days are gone for the present. Today, with every available man and every available resource dedicated to the essential business of national defense, the concern or individual who has a fire is not finding replacements so easy to get. The whole attitude of the producers of raw materials, the manufacturers, wholesalers, retailers, builders, investors and the consuming public has undergone a complete transition.

Money — Without Priority

IF YOU should have a fire and are adequately and properly insured, your insurance company would, upon proper adjustments, as always, be glad and willing to compensate you for your losses. In these times your property destroyed may, and probably would, be more valuable to you than the money you would get from your insurance company, because unless you were working on Government Defense orders, and had a priority rating, you would probably find it impossible to replace your damaged property in these times. If you have a priority rating, the Government will see to it that you are furnished with what is necessary to replace your property as long as that material is available. There may come a time, though, if the war keeps up long enough, when even with a priority rating you will not be able to

Avoid the fire hazard of spontaneous combustion of waste material.

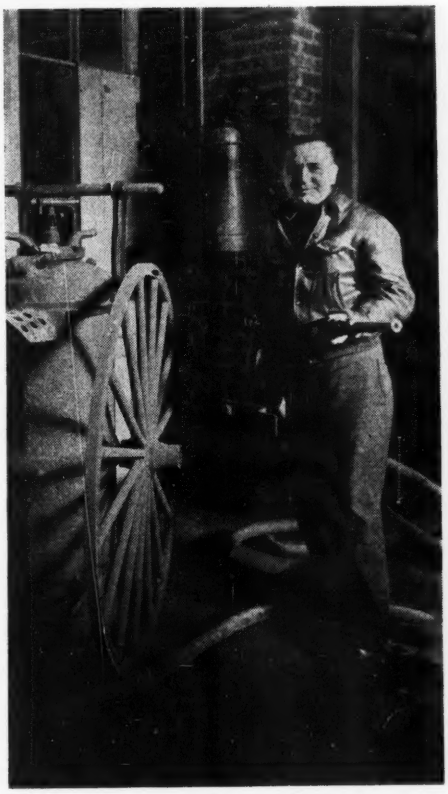
replace your property.

What good would cash be to a manufacturer who couldn't replace his buildings, his machines and other essentials, including workmen who would quickly find jobs with other employers? What good would cash be to the merchant who couldn't replace his store fittings, his stock and other necessary equipment to start business anew?

Today's New Restrictions

THERE can be no question in enlightened minds of the urgency of fire prevention under present conditions. As this article is written, the following restrictions have been placed upon business in America owing to the exigencies of national defense:

The construction industry, which embraces 2,400,000 workmen and grosses $11,200,000,000 a year, has been informed that it must refrain from every bit of construction which does not qualify as defense work, or as "essential to the health and safety of the people." Experts in building construction have announced shortages in copper (wiring, plumbing, weather stripping, hardware), zinc (galvanized tanks, pipes), iron and steel (reinforcements, hardware, heating equipment, screens). In some sections, owing chiefly to difficulties in transportation, there are shortages even in glass, lumber and cement. Estimates of the steel shortage for 1942 run to 5,000,000 tons and of copper 750,000 tons. The Office of Production Management has announced, in fact, that it sees a 30 percent gap between copper needs and supplies during the year. Already such copper articles as burial caskets, screens, ash trays, andirons, cuspidors, door knobs, weather stripping, water tanks and plumbing, memorial placques and ornamental objects have been put on the no-production list. All automobiles made after New Year's Day will be minus nickel, chromium and aluminum trimmings. From zippers we'll go back to buttons next year as the ban on zippers is placed on clothing, footwear, luggage, wallets, key cases and many other articles. And even cellophane will be unobtainable for the manufacture of such articles as sipping straws, gift wrappings, window displays and decorative devices, while cellophane-packaged cosmetics, razor blades, soap, textiles, wax objects, electrical appliances, flowers, chewing gum and probably cigarettes and cigars are definitely *out*.



Train every male worker to use readily accessible fire extinguishers.

Fire As Usual—Failure

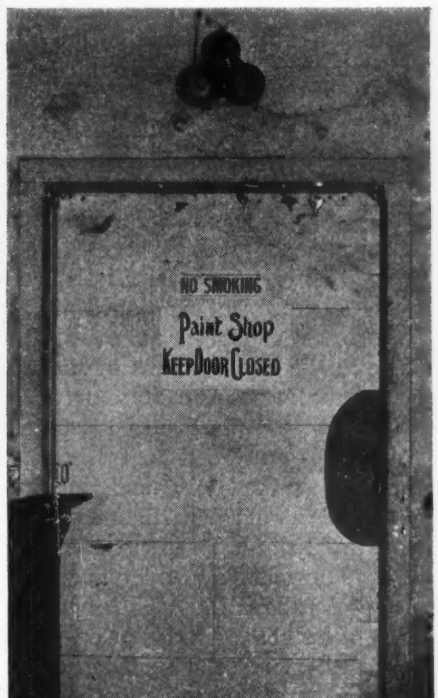
INDEED, the whole idea of business-as-usual is *out*, and the firm which suffers a fire from now on will find itself close to counted out.

This year, of all years, fire prevention means something. The concern or individual having a fire this year is going to regret it more than ever before. It's mighty comforting to get a check from one's insurance company after a fire, but it's small comfort when the check won't buy what you need to replace what you've lost. In short, an ounce of prevention is worth a pound of currency.

A great many fires are caused by carelessness. Good housekeeping in our homes, our offices, stores, mills, shops and factories will cut America's shameful fire losses by millions of dollars—dollars that are needed to speed the nation's most important job, defense. So, this year get behind the fire prevention movement and do your share. It's for your own good.

An Adjuster Tells What—

to expect from fire losses under different types of policies in the February issue of Credit and Financial Management.



Adopt approved methods for using and storing inflammable materials. Enforce the NO SMOKING rule.

Trade in England Under War Conditions

Radical Changes in British Merchandising

Now that the United States is at war it is interesting to take a glimpse at the effect of war on the marketing system in Great Britain, where war has been a grim reality for many months. In a talk before the St. Paul Association of Credit Men on December 9th, Arnold L. Skinner, regional business consultant, Department of Commerce, presented this picture of business in England under war conditions and gave the hint that we in the United States were headed into a somewhat similar restriction:

"In England, for purposes of price control, goods are divided into three groups: raw materials, foods, and non-food consumers' goods. The Ministry of Supply controls prices of raw materials. The Ministry of Food controls the prices of many food items. Maximum prices are fixed for a large number of food products, among them being butter, eggs, tea, coffee, cheese, bacon, lard, meats, fish, sugar, potatoes, onions, peas, beans, jams, dried fruits, canned fruits, condensed milk, etc. In many cases, both wholesale and retail prices are fixed. The prices of another long list of food items were frozen as of December 2, 1940. In spite of these controls, the index of all retail food prices rose 21 per cent from August 1939 to July 1, 1941. During the same period, wholesale food prices advanced about 60 per cent. However, in all justice to the English controls, it must be mentioned that a large part of these advances took place in the early months of the war before the imposition of controls.

"Prices of non-food consumers' goods — those goods corresponding roughly to the type and range of goods sold in our department stores—were frozen at the August 21, 1939, level. However, a retailer may raise his prices above those of August 21, 1939, if his cost of goods or operating expenses increase. Such advances, however, are under the close supervision of the Board of Trade.

Supply of Goods Is Limited

"THE supply of goods available to English retailers is restricted and controlled. Restricted quantities of raw materials are available for the manufacturing of consumers' durable goods. Manufacturers and wholesalers are forbidden to sell retailers more than a fixed percentage of the amount sold in a base period. Certain items, as new automobiles, wooden furniture, and silk stockings, are not being produced for the home market, and none, therefore, are available to the retailer.

"In addition, there has been some direct rationing of consumers. Among the items now rationed are butter, margarine, bacon, ham, cooking fats, fresh meats, sugar, tea, cheese, milk, and eggs. Gasoline and oil rationing began early in the war, and clothing was put under rationing in June 1941. Food retailers can buy rationed items only in accordance with the number of customers registered with them. Clothing retailers must turn in consumers' ration coupons in order to get new supplies.

"British merchandising practices and operations have also undergone radical changes. Advertising has been greatly restricted, chiefly for the purpose of saving paper. The size of posters is regulated, purchase of new paper for posters is prohibited, package inserts are prohibited, and newspaper advertising space is restricted. Advertising does continue, however, and even products that are no longer obtainable are still advertised.

Soap Without Wrappers

"PACKAGING has been considerably reduced. Soap is sold unwrapped. Tin has been prohibited for many packages. Tubes, containing toothpaste, shaving cream, etc., are sold without outer containers. Sugar is sold to retailers in bulk. Cigarettes are sold in paper packages with no inner foil or outer cellophane.

"Installment selling has practically ceased, and delivery has declined greatly because of shortages of gasoline.

"Expenses of retail stores of all types are estimated to be only 84 per cent of the 1938-39 figures, partially caused by a reduction in the number of stores and partially by a reduction in services and other expenses. Department store expense ratios, however, have increased slightly. Retail payrolls are only 44 per cent of pre-war, the number of salespeople having been reduced 35 to 40 per cent. Retail advertising costs are only 25 per cent of pre-war. On the other hand, extra expenses have been caused by air-raid shelters, drills, war-risk insurance, the loss of better employees, and voluntary payments to employees called to service.

"Total retail sales are still slightly above sales in the same months of 1939, in terms of money values. However, even the money values of sales are declining. In July 1941, sales were 10.6 per cent less than in July 1940. The physical volume of sales has decreased. Food sales are estimated to be down about 12 per cent since the war.

Retail Stocks Are Lower

"IN terms of physical units, retail stocks are considerably lower than before the war. Retail profits for 1940, as indicated by reports of the larger firms, average about the same as in 1939, before taxes. Increased taxation, in most cases, reduced the net profits available for distribution to stockholders.

"Briefly, such has been the English experience under the war economy. Perhaps you wonder about its acceptance by the English public. The general reaction is that restrictions have not been severe enough; rationing should have been started sooner, and more items included; prices should be controlled more intensively and extensively. Such is the reaction."

Continuing Mr. Skinner pointed out that we in America face a similar effect on our general marketing plans. He pointed out:

"Ours is not a war economy; ours in a defense economy; yet the difference is only a matter of degree—a matter of degree plus the basic differences in the economies of the two countries. Our economy, of course, is not nearly so dependent on imports as is that of Great Britain, and especially is that true in the case of most foodstuffs. And any lessons we might

learn from the English experience must, of necessity, be modified and adapted to our own needs."

The English experience throws much light on what we might expect here, because the English economy now is an economy of scarcity—an economy of scarcity in consumer goods, occasioned by the demands of the war machine.

"In our own country, ours has been an economy of abundance, in terms of either production or capacity, and has been so for so long that it is difficult for us to realize that we might be faced by shortages. Yet this is exactly what we do face — shortages, and serious shortages at that.

Rationing Here Already

"THESE serious shortages have led to rationing—rationing of many of our basic metals and chemicals—rationing by means of priorities and allocations. This rationing of inadequate supplies, for example, means that no one, for the rest of the emergency, will be allowed to make such things as vases, pitchers, candlesticks, andirons, cuspidors, ashtrays, and doorknobs containing copper. It all adds up to the conclusion that many items containing these scarce materials simply will not be available, or will be available in limited quantities only, after the current inventories are exhausted.

"Let us think about a few of the specific effects—possible or probable —of a war or a defense economy on distribution plans.

"*1.* As indicated above, many items made of or containing appreciable quantities of scarce materials will not be on the market at all, or will be available in limited quantities, or will be available for limited uses, or will be available in the form of substitutes. You know the story about automobiles, the production of which has been cut more than 50 per cent already. Other examples are certain household appliances, the production of which has been curtailed. You can expect this trend to continue, and at an accelerated pace.

"*2.* A program of simplification will be pushed. It is not a program of standardization. To distributors, simplification is a blessing in disguise. It means that there will be fewer styles and sizes and shapes of such items as shoes, overcoats, dresses, kitchen utensils, vacuum cleaners. You can readily see the advantages to you in such a program since it will not be necessary for you to carry such a heavy inventory investment in order to achieve the same sales volume.

Expect Many Substitutes

"3 You can expect shortages in certain types of containers. Steel, tin, zinc, cork, plastics, and even certain types of paper are so short that difficulties are bound to occur. Some, we already experience. The use of cellophane is restricted. Chewing gum is no longer wrapped in foil. Substitutes must be found for cork used in bottle caps and stoppers.

"*4.* You will probably experience the practice of hoarding on the part of consumers. You should discourage this practice in every way possible since it aggravates the problems which all of us face.

"*5.* As the need arises, certain items will be rationed to consumers. This was done in the last war. Power is now rationed in the Southeast.

"An interesting sidelight on the recent rationing of gasoline on the East Coast is the fact that many service station operators welcomed the changes brought about in their merchandising practices — although not welcoming the reduction in supplies. These operators, mostly, were glad that it was not necessary for competitive reasons to remain open until midnight or all night. When the restrictions were lifted, many operators indicated that they would continue to operate on a reduced hourly basis. I am told that most stations continue to operate from 7:00 A. M. to 7:00 P. M., including Sundays and holidays.

"*6.* Taxes will be higher.

"*7.* Credit controls of a mild character are already in effect. I believe it would be safe for you to plan on these credit controls to be extended and to become more restrictive.

Price Control to Expand

"8 More and more items will become subject to price control. And it is possible and probable that such controls will extend to the wholesale and retail fields.

"*9.* Prices will continue to rise. This will occur despite the price controls exercised, although a runaway inflation is not probable. A serious inflation is too dangerous. Nevertheless, prices will rise.

"*10.* You can expect higher operating expenses. You will probably lose many of your better employees. Some will be in the armed services. Others will find more lucrative employment elsewhere. However, in a sellers' market, as will prevail, you will not need the same number of salespeople to achieve the same sales volume nor will it be necessary for these salespeople to be so well trained. Nevertheless, training new salespeople, even on a limited scale, is expensive, and they will not be so efficient as older employees for some time.

"*11.* As operating expenses rise, services will tend to decrease. Many services will be eliminated entirely.

"*12.* Some have predicted that distribution will become more efficient. I am not so sure about this. Much depends on the action of prices. Increases in the efficiency of distribution are not so probable in a sellers' market as in a buyers' market.

"Briefly, these are some of the things you can expect to happen in the field of distribution as our defense economy progresses and pinches harder and harder. These things create problems, and as yet unthought of problems will arise. Anticipate these problems as best you can so that you will be in a position to better handle them."

Business Books

FEDERAL FINANCES IN THE COMING DECADE. By Carl Shoup. Columbia University Press. $1.00.

The interest in the present defense effort and its effect on business, both today and tomorrow, is widespread. The relationship of government debt to business prosperity is likewise being increasingly pondered by alert business executives. And the necessity of as sound a program as possible to reduce the financial burden, which the emergency is developing, is evident.

There are many aspects to the problem. As his contribution, Professor Shoup has developed statistics which plot the financial situation of the country for the next ten years. His approach is based on the hoped-for victory over the Axis powers.

Defense Brings Credit Problems

Bank Analyst Points Out Some Danger Spots in War Work

By NATHANIEL E. PAINE, JR.

Credit Department Analyst, Brooklyn Trust Company

Present conditions have produced a new set of problems for the credit man. Many of them result from greatly increased activity in defense production, accompanied by expansion and weakened financial structure. Others represent heavy inventory situations, brought about by uncertainties in material markets and the need of protecting future operations.

There are danger signals in such situations which call for unusually careful study and consideration. The credit man must weigh all factors which have a bearing on the individual case, and decide whether the company can continue to operate and meet its obligations. He must appreciate that his own advice on financial matters may be a deciding influence in the company's future. The four cases cited in this article typify present day conditions which require extra vigilance on the part of the credit executive.

A Case of Rapid Expansion

A MANUFACTURER of electrical equipment presents an extreme case of rapid expansion from defense activity.

In the past, the sound financial condition of this manufacturer afforded ample protection to creditors, and permitted prompt payment of all liabilities. The company obtained credit from trade houses to cover its requirements, and borrowed from its banks for seasonal needs. Its credit standing was excellent.

Then came the flood of defense orders of the last two years. The company enlarged its plant, added extra shifts to its regular force, and increased production from less than $100,000 in 1939 to a present rate of over $1,000,000 a year. This expansion was financed largely by current creditors.

An Outworn Accounting System

NOW a critical situation has been reached. Large lines are requested from credit men when financial condition is unsound and when trade payments are slow. Current creditors, who obtain balance sheet figures, will find that their claims can not be paid even by the liquidation at full book value of all current assets. Further investigation will disclose that the company has outgrown its accounting and cost systems. As a result, financial statements do not present accurate information, and proper internal controls are lacking.

Assets	*June 30, 1939*	*June 30, 1941*
Cash	$ 4,000	$ 98,000
Accounts Receivable	12,000	177,000
Inventory	18,000	95,000
Current Assets	34,000	370,000
Plant-Net	84,000	221,000
Total Assets	118,000	591,000
Liabilities		
Loans Payable	$ 2,000	$210,000
Accounts Payable	14,000	130,000
Deposits	.....	68,000
Current Liabilities	16,000	408,000
Mortgage Payable	38,000	38,000
Net Worth		
Common Stock	20,000	62,000
Surplus	44,000	83,000
Total	118,000	591,000

Positive action must now be taken to insure financial control and strengthen the financial structure in the future. One or more credit men who are close to the company and seriously interested in its welfare, should co-operate with its management to bring about the necessary changes. The financial view point, which has been disregarded in the past, must have an important place in deciding upon future policies.

Management must be urged to install proper accounting and cost systems with adequate internal control. Then only can statements be obtained which reflect conditions accurately, and which can be used with confidence. Statements which are needed, include balance sheets and profit and loss statements in detail; budget forecasts; and comparisons for short operating periods of actual with estimated results, analyzed to disclose cost and efficient use of materials, labor, and overhead.

Relying on such statements, management can bid safely on defense contracts. It can watch operations closely, discover unfavorable trends, and take corrective steps. It can observe the changes in its balance sheet, and work toward an improved condition.

Nothing should be allowed to prevent the adoption of a new system since intelligent control of affairs in the future depends on it. Otherwise, in such a critical situation, there can be no confidence in the future.

Until a decided improvement in condition has taken place, the credit man should continue to advise the management on all important financial matters, particularly as to con-

templated increase in plant or the obtaining of further capital funds. He is of great service to his client when he works along the lines mentioned. Also he is protecting his own company's interests, and helping to change a problem case into a safe customer for the future.

Big Business—Few Facts

DEFENSE contracts caused decided changes in the financial condition of a manufacturer of uniforms in the past year.

Assets	*Dec. 31, 1939*	*Dec. 31, 1940*
Cash	$ 8,000	$ 9,000
Accounts Receivable	22,000	29,000
Inventory	49,000	104,000
Current Assets	79,000	142,000
Fixed Assets—Net	4,000	18,000
Deferred Expenses	1,000	5,000
Total Assets	84,000	165,000
Liabilities		
Bank Loan	.....	$15,000
Other Loans	$ 7,000	5,000
Accounts Payable	13,000	71,000
Current Liabilities	20,000	91,000
Net Worth		
Common Stock	43,000	43,000
Surplus	21,000	31,000
Total	84,000	165,000

Past volume approximated $350,000 a year, a conservative figure in relation to invested capital. The company discounted all trade obligations, and paid off promptly its bank borrowings, made for short, seasonal requirements.

Then defense contracts altered the entire picture. In the first six months of 1941 sales amounted to over twice the total for any previous year, and one order for over $2,000,000 was obtained. Greatly increased credit lines were required from banks and trade houses to handle the expanded volume, also to build up an extra large inventory of textiles as a protection against uncertain deliveries and price rises.

Unfavorable features of the situation included weakened financial condition, slowing up of trade payments, and unsatisfactory accounting and cost systems which failed to produce exact financial information.

As in the previous case, it is necessary to develop the financial records and controls to keep pace with rising volume. A budget, accurate costs, production figures with itemized actual and estimated expenses, and analysis of important balance sheet accounts should be provided as the basis for control of operations by management and for intelligent decisions as to credit lines by credit men.

How Much of an Asset Is Inventory?

DEFENSE activity has indirectly affected a wholesaler of automobile accessories in the past year, causing a weakening of financial condition. (See statement below.)

Assets	*June 30, 1940*	*June 30, 1941*
Cash	$ 9,000	$ 2,000
Accounts Receivable	23,000	31,000
Inventory	14,000	64,000
Current Assets	46,000	97,000
Other Assets—Net	4,000	6,000
Total Assets	50,000	103,000
Liabilities		
Notes Payable—Trade	.....	$ 2,000
Loans Payable	.....	6,000
Accounts Payable	$17,000	52,000
Current Liabilities	17,000	60,000
Net Worth	33,000	43,000
Total	50,000	103,000

In previous years operations were conservative and profitable. Out of regular earnings, a substantial portion remained in the business, providing further working capital as volume grew. The company discounted all bills for purchases of merchandise, and conducted its bank relations properly, borrowing for seasonal needs and paying off loans as agreed.

Then early in 1941 the management decided to accumulate a greatly increased inventory. This action was forced by a 40% increase in sales and by uncertainty as to deliveries of equipment in the future. With the defense program taking a continually greater proportion of available metals, manufacturers of accessories urged good customers to stock up heavily in order to guard against future shortages and price increases.

This company took advantage of its opportunity to obtain goods, and at the end of June its inventory amounted to over four times the figure of the previous year. It requested increased credit lines from banks and trade houses when its financial condition had been weakened decidedly by expansion.

The problem here is largely one of inventory. The credit man should assure himself as to the thoroughness of the latest audit and as to the actual existence and makeup of the inventory. He is interested in the method of inventory valuation, system of inventory control, and recent trend of accessory prices. The present large stock can be justified if the supply on hand of the most important items is found to be in good proportion to sales in the past season, or in the case of fall or winter goods, with sales in the last half of 1940.

An unusual condition requires more than ordinary information. It is only when the matters of chief importance in the particular case have been investigated and found to be proper under existing circumstances, that the credit man can safely decide to continue credit accommodation.

Present conditions have complicated the financial problems of a manufacturer of toilet articles and

America's Position After the War

America's vast economic strength will be the ultimate factor in victory, but a quick decision must not be expected. Gangster control of world trade is the issue. Unless we are ready to bow to the economic shake-down policies of the Axis powers, we must overcome the initial setbacks and persevere until we emerge victorious over these international racketeers.

The nations of the world have now forsaken the economic weapons with which they attempted to gain dominance. These weapons included tariffs and quotas, restrictions and depreciation. Merely listing them points the moral. The economic world in the post-war era must be based on economic as well as political security, with the interdependence of all nations clearly recognized in the development of international trade policies.

If the nations of the world need one country to provide leadership, the United States is the logical one, for it is industrially advanced, financially powerful, centrally located, and possessed of the greatest natural resources. Victory in this war will bring to the United States world trade dominance and the responsibilities that go with such leadership.—*Henry H. Heimann in an address in New York in December.*

novelties. A number of unfavorable features stand out on its latest balance sheet.

Assets	*June 30, 1941*
Cash	$ 7,000
Accounts Receivable	64,000
Inventory	97,000
Current Assets	168,000
Fixed Assets—Net	12,000
Miscellaneous	2,000
Total Assets	182,000
Liabilities	
Loans Payable	$16,000
Accounts Payable	90,000
Accrued Expenses	6,000
Current Liabilities	112,000
Net Worth	
Common Stock	47,000
Surplus	23,000
Total	182,000

This company's management is aggressive. Its products are attractive and are offered at moderate prices. Its sales have grown steadily in recent years, but financial condition is weak, due to the withdrawal in officers' salaries of practically all profits earned. The lack of a sound, long term financial policy is now evident in a shortage of working capital. Payments run a little slow with most trade houses, and date back over six months with two large creditors.

A substantial inventory is necessary for several reasons which include a thirty per cent increase in sales this year, the difficulty of obtaining raw materials such as textiles and metals, and future sales commitments. A number of articles have been "listed" with chain stores under an agreement which calls for their delivery during the balance of the year at prices quoted. Sales to chain stores amount to about one-third of total volume.

With financial condition unbalanced as a result of large inventory and heavy debt, the company needs increased credit lines from its bank and the two largest trade creditors. Approval would be difficult if the decision were to be based on balance sheet condition, since it is unfavorable.

Detailed balance sheet and profit and loss statements should be obtained to disclose the present situation clearly and throw light on future operations. There should be an analysis of inventory, comparing stock on hand with sales in the past season for the important items. Due to the importance of style in this line of business, consideration should be given to goods which are out of date or obsolete because of style changes.

Operating statement is of increasing importance as balance sheet condition becomes less favorable. It should be presented in sufficient detail to disclose operating results accurately.

It is likely that full information about this company will disclose a changed but safe condition of affairs after consideration has been given to the type of business it transacts and to the situation in material markets.

Double Scrutiny Needed

I WISH to emphasize that today, the credit executive is justified in doubly scrutinizing financial statements of companies that have mushroomed through defense activities. The cases mentioned are examples of financial statements which are inadequate to meet present needs. They are typical of countless companies which have outgrown their ordinary accounting and cost systems. Sometimes these companies are aware of their own needs for more information, and are making the needed changes. Often the management does not realize this necessity. The credit executive is the logical man to instigate the needed changes.

Ordinarily great detail is not expected by the credit man in an accountant's report since current creditors can usually be paid off with available cash and the liquidation of receivables. Now, when working capital is far below the proper amount or even a deficit figure, creditors must look to future operations for payment of amounts due them.

In such situations the credit man must have confidence in the accounting and cost systems in force, he needs full information about balance sheet accounts, but also he requires detailed operating figures to serve as a basis for forecasting future profitable operations. The more extreme the situation, the more complete should be the information furnished.

Companies engaged in defense work are transacting a continually larger share of the total production of the country. They represent an increasingly important field for the credit man, and call for his best analysis and judgment.

Commercial Credit Analysis—IX

Appraising the Soundness and Liquidity of Inventories

By EDWARD F. GEE

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If retailers and wholesalers are to continue in operation as going concerns, they must maintain stocks of merchandise on hand sufficient to meet the reasonable immediate demands of their trade. If manufacturers are to continue to function as producing units, they also must ordinarily carry supplies of finished merchandise for immediate delivery and, in addition, they must have stocks of raw materials available for the continuing replenishment of the manufacturing process. These necessary investments in inventories, as we have seen, run in substantial proportions to the current and total assets of the average business enterprise. The evaluation of their soundness and liquidity is one of the most difficult problems with which the analyst is faced.

Merchandise for sale or materials for conversion and sale cannot be given the same definite dollar value in the balance sheet that can be assigned to accounts and notes receivable. The dollar amount of receivables is definitely fixed. Regardless of future fluctuations in markets or business activity the same dollar amount remains unvaried and the debtors can always be proceeded against for a positive total of monetary claims. Inventories, on the other hand, do not represent definite claims to dollars. They first must pass through a hazardous sales process before they become fixed in absolute monetary quantity. Thus the value of inventories is susceptible to changing price levels, fluctuations in business activity, variations in consumer demand, obsolescence, depreciation, supersession, and all of the other unpredictable factors that enter into the determination of marketing conditions.

If inventory quantities are excessive in relation to a level of minimum efficiency, marketing hazards are unnecessarily increased and operating costs are burdened unduly. If inventory valuations are excessive in relation to realizable cost, the asset protection of debt is misleadingly shown and net worth and operating results are overstated to an unwarranted extent. How are we to determine if inventory quantities are excessive with the resultant unfavorable implications? How are we to ascertain the propriety of the valuations used? How do we go about appraising the soundness and liquidity of the inventory asset?

Basic Considerations

In viewing inventories in the balance sheet it is important to remember that the total shown is the result of somebody's enumeration of quantity and estimation of value. It is fundamental, then, to an appraisal of the soundness of the total to establish the integrity of the quantities and the validity of the principles used in the evaluation process. Since there is a wide latitude of judgment that may be legitimately employed, an abnormally high degree of confidence is required in the management of a business if its inventory estimates are to be accepted without the benefit of a disinterested verification. When audited statements are involved, the extent to which the accountants checked inventory quantities, pricings, and salability, should be considered a matter of primary and significant interest.

The inventories of a retailer or a wholesaler usually consist entirely of merchandise in finished form on hand for immediate sale and therefore we may deal with the whole as a homogeneous unit.

Manufacturers, however, will usually not only have finished products on hand for immediate sale but will also have raw materials, packing supplies, and other accumulations of inventory costs, all moving toward a finished combination in salable form and ultimate conversion into cash. Thus for increased analytical significance, it is essential that the inventories of manufacturers be broken down in order that individual consideration may be given to each of the following classifications:

1. Finished goods
2. Goods in process
3. Raw materials
4. Supplies

Finished Goods

We have previously defined current assets as those assets which will ordinarily be converted into cash in the normal course of operations within a twelve-month period. If merchandise inventories in all types of business enterprise are to qualify as an element of the current asset total in the balance sheet they must therefore consist only of goods fit for sale and intended for sale as a part of the regular operations of the business during the succeeding twelve months. Unsalable merchandise, merchandise held for display and advertising purposes, and all types of products which will not ordinarily be sold in the normal course of operations, *even if of a salable nature,* should be excluded from the analyst's consideration of the current asset total. From the standpoint of a going concern, no funds will be forthcoming from assets of this nature to meet the maturing business obligations of the next twelve months.

By the same token, no goods in process should be included as an element of current inventories in the balance sheet of a manufacturer unless they represent materials and other accumulated costs in process of conversion to finished products which will be salable and intended for sale in the established course of business within

a twelve-month period. Products that are being manufactured for use and not for immediate sale are not properly a part of the inventory total with which we are concerned.

The criterion of distinction extends all the way back to the raw materials which are held awaiting absorption in the manufacturing process. If there are any materials on hand which are not of a nature to be absorbed in the normal manufacture of merchantable products, they should be set apart from the regular inventory asset.

Supplies as Assets

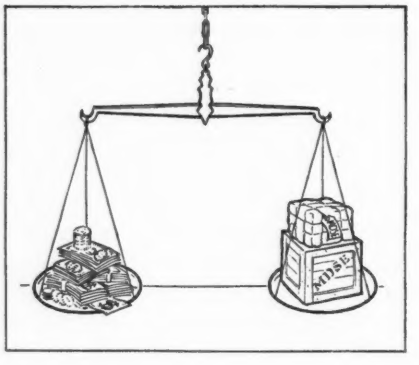
WHEN the analyst permits a sum of supplies to remain a part of the inventory total in the current asset section, he should first definitely ascertain whether the items are such as eventually to become a part of current finished products. It would seem that packing supplies, such as bottles, caps, labels, original containers, etc., might properly be considered a part of current inventories since they are necessary to the completed form of the manufactured products. We feel that factory supplies, however, which may consist of brooms, waste, oil, etc., should unquestionably be removed from the current inventory total, whenever they are found to be a part thereof, and relegated to a deferred charge classification. They represent prepaid manufacturing expenses and are no more entitled to a current inventory classification than prepaid plant insurance or other prepaid manufacturing costs.

It is even more obvious that salesroom and office supplies have no place among current inventories. If they should happen to be found as part of the total, there should be no hesitation whatever in dropping them to the deferred charge section.

Supplies in the Inventory

SINCE there is no absolute uniformity in accounting terminology as applied to inventories of supplies, it is more important that a principle of classification be established and understood than to give consideration to specific account headings. We submit as a principle for analytical classification that no supplies be permitted to remain a part of the current inventory total unless they are essential to the completed form of the manufactured product.

Thoughtful business men have long recognized that there are certain elements of fixidity in the inventory asset from the standpoint of a going concern. In the words of Albion R. Davis, Comptroller, American Hide and Leather Company, "A large part of inventories in a going concern is just as much a fixed asset as buildings and equipment. A mill must be kept threaded, a pipe line must be kept full, or there is no business. Even the storekeeper must keep his shelves adequately stocked or few people will trade with him."



The right inventory balances with conditions.

The reference to a pipe line as an illustration seems particularly apt. We can get a vivid impression of the necessity for a fixed element in the inventories of all manufacturing concerns by thinking of the manufacturing process as a hollow tube (varying in length with the nature of the process) through which raw materials must be forced to produce finished goods. The tube must be filled before we can force out finished goods. More raw materials must be put into one end before more finished goods can be forced out of the other. The tube must remain filled at all times with its contents corresponding to the continuing "in process" flow of materials through manufacturing plants. If operations are stopped, the materials in the tube or in process in plants has little or no value, since it remains unavailable, and special pressure must be applied in the way of additional funds to force it on through to finished realizable form.

Not only does a portion of manufacturing inventories continue definitely fixed in process in this way, but it is also necessary to carry a minimum basic supply of materials and, usually, a minimum basic supply of the finished product. Similarly, in retail and wholesale organizations there are certain essential inventory quantities necessary the year-around if operations are to continue on a going-concern basis.

To the bank credit man, this conception of a fixed element in inventories means that when he is called on to finance these basic and permanently-necessary inventory supplies, he is lending in a sense against fixed assets. It is essential to intelligent loan policies that due recognition be accorded this fact.

Incidentally, we shall discuss in a subsequent chapter one or two methods of inventory valuation which are founded on an acknowledgment of the necessity for minimum or basic inventories.

Having behind us a few of the introductory principles involved in the analysis of inventories, we can now concern ourselves with the somewhat more intricate aspects of the analytical procedures directed to the evaluation of this asset.

Relation of Inventories to Sales

THE receivables shown in the balance sheet at the close of a period are the result of the sales of the period and therefore there is a direct lineal relationship between the two. Inventories, on the other hand, do not stem from past sales but are more directly related to the anticipated sales of the future. Since the volume of past sales, however, is one of the best guides we have as to what we may expect in the way of future sales activity, it is significant to relate the inventories at the close of a period to the sales for the period then ended.

This relationship is customarily expressed as the ratio of sales to merchandise. When the ratio is high in comparison with past periods or in comparison with that shown by the average enterprise in the same line of business, it is usually interpreted favorably as an evidence of inventory quality and of the ability of the management to move its merchandise quickly and to the best advantage. Conversely, when the ratio is low, the inclusion of slow-moving merchandise of questionable value is suspected

and a question is raised as to the efficiency and merchandising ability of the management.

In using the ratio, however, the analyst should be fully aware of the varying nature of the factors he is viewing together. Inventories, as we shall see later, are customarily valued at cost (or at the lower of cost or market), while the sales figure represents the aggregate value of merchandise sold during the period *at selling prices* which, of course, includes a mark-up over cost. Therefore, variations in the amount of the profit mark-up in sales from one period to another or between business units will cause misleading and unwarranted variations in the ratio of sales to merchandise.

At best, then, the ratio is merely an index figure with no meaning in itself and even as an index it lacks dependability because the factors involved are not valued in a comparable manner. It is a makeshift relationship, evolving from convenience rather than logic, and its use cannot be defended except when the information necessary to the computation and comparison of more significant relationships is lacking.

Relation of Inventories to Cost of Sales

SINCE the cost of sales for a period is available from the profit and loss statement, there is no reason why the analyst should not relate inventories to a factor which is based on a comparable conception of value. The ratio of inventories to cost of sales or of cost of sales to inventories, whichever is preferred, is not only more reliable as an index of the relative heaviness of inventories—since it eliminates the extraneous influence of varying margins of profit—but it can also be given real meaning in itself by conversion into terms of days or months.

Inasmuch as the ratio of inventories to cost of sales is more directly adapted to interpretation in days or months, we prefer to state the relationship in this way rather than the other way around. Thus if inventories of $40,000 were shown in the balance sheet at the close of 1939, and if the profit and loss statement indicated that the cost of sales for the year was $400,000, the ratio of inventories to cost of sales would be computed by dividing $40,000 by $400,000 to arrive at a relationship

> The problem of inventory as an asset is, today, of paramount importance to Credit Executives. Mr. Gee's comprehensive consideration of this topic forms a valuable addition to the credit man's reference file.

of 10% or an index proportion of 10. Since the inventories at the close of 1939 represented 10% of the cost of goods sold during the year, then in terms of days they represented 10% of 365 days or 36.5 days, or in terms of months, 10% of 12 months or 1.2 months. Thus in addition to providing a dependable proportion for comparative purposes, the relationship we have established assumes a significance of its own since we can say that on the basis of the cost of sales for the year 1939, the inventories on hand at the close of that period were sufficient to supply future sales for approximately 37 days.

Danger Points to Watch

IF the relationship is unusually heavy in comparison with past periods, with that shown by concerns in the same line, or with what all conditions would appear reasonably to suggest, the analyst has cause to investigate the existence of excessive quantities, the possibility of improper valuations, or the inclusion of unattractive, slow-moving, or obsolete merchandise. If the relationship is abnormally low, consideration should be given to the possibility that ordinary purchase needs may have been designedly deferred just prior to the statement date for window-dressing purposes.

Relating year-end inventories to the cost of sales for a period gives us some idea of the relative heaviness of the total which may be interpreted as a reflection on its quality and liquidity. However, the inventory total shown at the close of business on the final day of a fiscal year need not necessarily be characteristic of that maintained throughout the remaining 364 days of the period. If we want a more reliable index of the merchandising ability of a business from period to period or in relation to comparable units, we must use an average of inventories throughout the year.

The Turnover of Inventories

THE relationship of the cost of sales to the average inventories of a period is commonly called the "turnover of inventories." It is indicative of the number of times that average inventories were "turned" or converted into cash or receivables during the year. Hence it reflects on the quality of inventories throughout the course of the year and on the purchasing and merchandising efficiency of business management.

In the computation of average inventories, the use of daily or weekly totals would perhaps provide a more denotative figure but as a matter of practice an average of month-end inventories affords sufficiently reasonable accuracy. As we have previously suggested, an audit report submitted for credit purposes should contain a statistical summary including month-end totals of the inventory asset. With opening and closing inventories, there are thus provided thirteen figures upon which to base an average of inventories for the year.

In manufacturing concerns, raw materials and goods in process should be included along with finished products in the computation of average inventories. However, as we shall see later, further light can be shed on manufacturing inventories by determining an individual turnover for each classification of the total.

Naturally the rate of turnover that is attained by a business will vary considerably according to the type of trade or industry. Retailers of perishable meats and food products, for instance, will have an abnormally high turnover of merchandise while at the other end of the extreme will be retailers of jewelry and furniture, perhaps, and manufacturers of heavy and costly products. Comparisons between business units should therefore be confined to those that are strictly comparable from the standpoint of function, product, size, territory, and general operating conditions.

Effect of Changing Price Levels

CHANGING price levels from period to period may cause variations in the dollar turnover of inventories which are not based entirely on corresponding variations in the actual physical flow of merchandise through the business. Hence the dollar turnover cannot always be relied upon as a dependable indicant of the relative movement of physical quantities. This is particularly true of the sales to merchandise ratio since it is conceivable that if selling prices moved up continuously throughout an operating period, the average selling price per unit for the year might actually be lower than the average cost value per unit placed on the inventories at the close of the period.

Where it is practicable to do so, the turnover of inventories should be computed on the basis of actual physical quantities. Tonnage sales or unit sales should be divided by average annual inventories in tons or units to determine an accurate physical turnover. Similarly, the ratio of year-end inventories to the cost of sales can be more informatively expressed as the ratio of inventories in physical units to the number of physical units sold throughout the year. The effect of varying unit prices from one period to another is thus eliminated and there is made available a more reliable index of the relative heaviness of inventory quantities.

The availability of unit quantities also enables significant comparisons to be made between unit pricings at each statement date. By dividing the total dollar value of the inventories by the total units represented, an average per unit valuation can be obtained for the asset. Viewing this average from period to period in the light of general business conditions and of the marketing outlook in the specific industry, in particular, and in comparison with average unit selling prices of past periods, the analyst is able to gain an unusual insight into the relative conservativeness of inventory valuations. Of course, the significance of the average is weakened by quality variations in unit pricings. Preferably, the figures should be so broken down that an average unit price could be obtained for each class of product in the inventory total. Then comparisons of the average would truly have meaning.

Adjusting for Price Variations

IF physical quantities are impracticable of obtainment, it may be possible in some instances to obviate a part of the price weakness in the dollar turnover of inventories or in the ratio of receivables to sales by adjusting the factors in the computation of these relationships to allow for price changes as revealed by statistical indexes. An expedient of this kind is utterly inapplicable unless the price movements of the product or products concerned are explicitly available from reliable commodity indexes. At best, it is arbitrary and open to inaccuracies although in exceptional instances it may be useful in mitigating to some extent the misleading effect of changing price levels on the relationship of dollar inventories to dollar volume factors, particularly where price movements are unusually severe.

The inventories of a manufacturer can be appraised more fully if the turnover of each element of the total is computed individually.

The turnover of finished goods alone should be computed by dividing the cost of sales for the year by average month-end inventories of finished goods. The ratio of year-end inventories of finished goods to the cost of sales in terms of days indicates the extent to which the finished goods on hand at the close of the year will supply the sales of the succeeding period.

In viewing the relative size of work in process inventories, it would seem reasonable to assume for convenience that these goods on the average are half completed. Therefore, if we double the year-end total and relate this to the cost of sales for the year in terms of days, some idea can be gained of the relative heaviness of the inventories in process by considering the extent to which they will supply future sales when completed. Again, it may be assumed that inasmuch as goods in process are considered to be half completed, it will require just half as long to convert them into finished goods as it requires for the conversion of raw materials to a finished state.

How Much Is on Hand?

THE turnover of raw materials alone should be computed by dividing the total cost of materials used in production for the period (as shown by the manufacturing statement or profit and loss statement) by the average month-end inventories of raw materials. The ratio of year-end inventories of raw materials to the cost of raw materials used for the year in terms of days indicates the extent to which the raw materials on hand at the close of the year will supply the manufacturing needs of the succeeding period. If this relationship seems unwarrantedly heavy, it may suggest that the business is taking a speculative position in materials with all the hazards that this implies, or that a state of unbalance exists. If it seems unwarrantedly low, it may suggest that the continuity of normal manufacturing operations is threatened or that efforts have been made at window-dressing.

The turnover of supplies alone should be computed by dividing the total cost of the supplies used in production for the year (as shown by the manufacturing statement or profit and loss statement) by the average month-end inventories of supplies. The ratio of year-end inventories of supplies to the cost of supplies used for the year in terms of days indicates the extent to which the supplies on hand at the close of the year will supply the manufacturing needs of the succeeding period. An unreasonably high or an unreasonably low relationship warrants an investigation of the state of balance within the asset or a review and discussion of purchasing policies.

Balanced Inventories

THERE are several types of balance that are desirable in the inventories of manufacturing concerns.

First, raw materials should not be

(Continued on page 47)

Credit Department Cooperation

Wholesaler Shows How Team-work Boosts Firm's Profits

A fair approach to the understanding of my subject requires close attention to the study of the fundamentals of business, as a whole, and their relationship to business as the means to an end and not the end itself. A credit department of and within itself is impotent, but credit management working through the other departments of business, enlarges and improves the result of the business transaction touched by such management.

We must presume the thing in which we are all interested is the success of our business. Too many times we become fixed in our ideas as to what is good credit practice. It is not good simply because it appeals to our sense of judgment; or it matches with our past particular experience, or because it happens to fit our particular caprice. That is not the test of whether that practice is a success. *Any service* a credit department may render, if it is in the end successful in securing a more profitable business, is of and within itself a *success* even though it may violate some of our fixed ideas of management.

Increased Human Wants

Therefore, to begin this study, I am asking that you begin with certain basic understandings of business. If we confine ourselves purely to an academic definition of business, it is generally acceptable as "Business is any lawful way of earning a living." But for more practical purposes this definition fails to give us sufficient foundation on which to build our study. I like to think of business as "the satisfying of human wants." When we begin to study the scope of business and the relationship of credit management to business in the light of satisfying human wants, we begin to see many opportunities for the enlargement of our sphere, as business executives dealing with credit management.

By T. B. HENDRICK

Secretary, Collins-Dietz Morris Co., Wholesale Grocers, Oklahoma City

THE difference between the low order of civilization and our present highly complex civilization lies largely in the difference between their respective human wants. We see, at once, that human wants are flexible. These wants are capable of enlargement and refinement. It means an education of the public to use of new and better ways and means of life. It means advertising and selling improved goods. It means a whole new field of economy. It means an enlarged credit economy. As credit people, we take a new viewpoint. When we do this, we immediately enlarge the horizon of our own business opportunities. Doing this brings us head on into consideration of the three general phases of all business.

Irrespective of the nature of the individual business in which may be found, whether it be the selling of merchandise, the manufacturing of goods, or the rendering of services, this business is divided into production, distribution and consumption. In the strictest sense, credit management is a part or sub-division of the general subject of consumption. In reality, however, we are the cohesive element that runs through all these three parts of business.

For instance, the question of production involves extensive credit practices. In the food industry, if it were not for credit in the giving of contracts and orders, the processors and manufacturers could not secure the production of raw material nor the building and equipment of plants for the handling of this raw material. So, we would have very little for distribution. It is only when we apply the function of credit to production that we in the food industry begin to have our products for distribution. In turn, credit becomes the essential part of distributing. Without credit, we could have only a system of barter. Distributing depends upon the ability of the consumer to finance his wants, and finance goes nowhere without credit, and certainly without credit, there would not be the complexed system of consumption that we now have. Whereas, credit is classed generally by economists in the matter of consumption, it seems more practical to consider credit as the centripetal force which holds all three of these together in the mad whirl of business.

The Function of Salesmanship

SALESMANSHIP deals with the ability to induce prospective customers to buy. It is the art of exciting the imagination and the desire, 'or the want,' if you please of the individual to the point that he will act upon our sales offer and buy. The sale is the contract. We deliver our goods for a price. Price is the determination of value. Again, our friend, the economist, would say, the value or the price tag has resolved itself into consideration of four things; the right thing; in the right place; at the right time; for the right use. Therefore, in the approach of assistance by credit management to sales, you will note that credit is related to all four of the elements which fix value. All four of these elements operate directly to our credit work. Therefore, credit management must work hand in glove with salesmanship. It is not a substitute for salesmanship. It must be and is so closely allied to salesmanship as to be inseparable. Much of the trouble that exists, at times, between sales and credits, lies in the fact that too often one or the other attempts to usurp the position of the other and both are thereby weakened. It is, therefore, the development of a plan for pulling as a team that we move into the field of suggestions for specific cooperation of one to the other.

Anything that helps create human wants, such as, advertising, styling,

or inherent quality in the thing which we sell inures to the benefit of the party making the sale. At the same time, it relates itself directly to the credit function. We may have a product designed perfectly for the customer's needs; it may have all of the requisites of style, all of the requisites of utility and desirability, and there might be a great number of customers who actually have a keen desire for ownership, but, if for some reason, we put the price so far beyond their ability to use it, they will rarely come into ownership. This is where credit management begins to function. It is our job to so study merchandising with the other departments of business that we may begin with the design of the product itself; its packaging; its styling, the determination of its ultimate cost and the amount of credit necessary to safely market that piece of goods. Then it is our job to see that the *financing necessary for consuming* of the goods can be had through *safe credit operation.*

Both a Science and an Art

TOO many times credit executives look upon credit management as a science and completely or partially forget the fact that while credit management is a science, it also, at the same time, is a highly developed art. Science is any orderly compilation of facts from which general principles may be deduced. Certainly, we credit managers must compile careful and accurate facts and must determine from these facts our credit policies. On the other hand, that is not enough. The art of any operation is the use of a special skill and a special technique in the performance of the credit function. It is in the execution of credit management, as an art, that we become extremely useful and an asset to the sales department of our business. In turn, disregarding the art, we become a detriment to the whole of our business.

We, as credit executives, should never lose sight of the fact that the thing that is uppermost in every customer's mind, next to the value of the goods itself, is the question of how he will be able to finance the ownership of that item. How will the credit department handle him. It is a common fault of both the sales department and the credit department, to consider the day's work as a perfunctory matter. We deal with many customers through the day, until it becomes a routine, void of individual consideration. It is well for us to remember that many times when a customer approaches us for discussion concerning his buying and his credit problems, it is an event to him. He may not discuss those matters more than once or twice a year, if that often, with some skilled business executive. On the other hand, you may have discussed on the same day the same general problems with many different people. What has become to you a routine matter, in the mind of the customer, it is unique and personally very important. Therefore, it is a serious danger for us to drop into the habit of perfunctory treatment of these customers. The customer feels that his problems are extremely important. He likes to feel that you are giving special attention to his special problems, and having such a feeling, he, in turn, reacts much more favorably and much more liberally toward your company's efforts to sell him.

The relationship between the credit department and the customer should be comparable to that of a good shoe. It is a matter of close contact, and at the same time, continuing its relationship primarily as the basis of comfort and good service. A customer wants to feel comfortable about his account with his supply house. If he does not feel comfortable about it, only a short time passes before he will sever his relationship with that house irrespective of how well the salesman may attempt to hold onto that account.

Three Parts to Every Sale

WE, AS credit executives, should remember that we must approach the question of selling and, therefore, the question of credit quite like the salesman himself. Roughly speaking, every sale must be considered from three positions. First, we must consider the sale from the viewpoint of 'The transaction before the sale is made.' Second, we must consider the transaction as of 'the actual consummation of the sale,' and lastly, we must consider the transaction after the conclusion of the sale. Disregard of any one of these three parts, and you completely wreck the selling by your firm to desirable customers. In considering 'The sale before the transaction,' it must be borne in mind that this starts with the actual planning of the creation of the merchandise. The creation of the items that we are to sell; time and method of consumption; the special advertising that may have gone into creating consumer-demand, and many other such influences that will cause the consumer to want that particular thing prepares the sale. The credit manager who fails to inform himself as to his employer's general policies of merchandising and to keep himself informed as to advertising campaigns and seasonal sales efforts cannot give his best cooperation to selling. Therefore, he fails not only to give his employer his best in supporting the sales department, but fails in the actual function of passing on the credit himself.

It is natural and correct that the sales manager should look to the establishment of the satisfactory accounts and the acceleration of consumption. At the same time, it is the rightful function of the credit department, in coordination with the sales department, to seek out in advance of the sales campaign, through proper surveys, prospective customers who will be satisfactory accounts when they are once sold.

It is a common weakness of all salesmen to undertake to force merchandise onto some weak customer who should have only a nominal amount of merchandise. This weak customer, being unable to resist some of the high pressure methods, is over sold and becomes a credit problem. At the same time, there are customers who may be able to buy very substantial amounts of merchandise and who can make, by means of prompt payment and proper distribution, a most satisfactory account, but who because of his strength of sales resistance is undersold by the individual salesman. A survey of potential possibilities through the credit department placed in the hands of sales department gives the sales manager a powerful weapon in planning his sales campaigns in that he is able to insist that the merchants, most capable of giving him the proper distribution and the fullest possible consumption of his products, are sold up to their potentiality. At the same time, the sales manager is able to direct the efforts of his salesmen away from his calls on the weaker group.

Dangers in Overselling

EVERY credit manager knows the danger of overselling an account. Honest cooperation with the sales department will eliminate that danger. At the same time, the invitation by

the credit department to a strong customer to increase his line of purchasing may double or treble the amount of sales to that dealer. Therefore, both the sales manager and the credit manager are benefited by mutual cooperation. At the time of the conclusion of the sale, it must be understood that while the customer may not be saying anything, he has his eye constantly on the question of his ability to pay and the treatment which he will receive from the house in the handling of the bill after he has received the merchandise.

It is possible to have a customer who is thoroughly satisfied with the merchandise and is friendly toward the salesman; but if he is improperly handled by the routine handling of his account by the credit department, he will turn his business to a more friendly house and probably a less acceptable salesman. Therefore, one of the things which every credit department can do to cooperate with and to enlarge the sales and to insure the increased sales of his respective firm is to seek through correct and kindly service of his department, as pertains to the rendering of statements, the correctness of the accounts, the handling of the account in such a way as to bring the customer closer to the house. I am personally of the opinion that this is largely a matter of attitude on the part of the particular credit manager. I think if every credit manager approached his credit problems with the idea and the attitude of seeing how much he can safely ship, in place of approaching it from a viewpoint of constriction, he would be delightfully surprised as to how many times he is able to get merchandise delivered, and at the same time, keep his credit losses within safe limits. We must remember that every time we are able to ship merchandise we increase the volume of sales which enlarges the amount of our reserves against credit losses.

Giving consideration to the last phase of selling; that is, of 'The consideration of the sale after the conclusion of the sale,' we find here the richest field of opportunity for a credit manager with reasonable amount of imagination and with a sane desire to be courteous, friendly, and cooperative to the other departments of the business. It is fairly safe to say that the large part of the risk of credit is reduced to the irreducible minimum when we are able to deal with successful customers. That is, if our customers can get the where-with-all to meet the payment of his bills, he is just as anxious to do so as we would be ourselves. Therefore, much of our time can be profitably spent in helping our customer be a successful retail merchant, so, that in being a success, he in turn becomes a successful and satisfactory account to us.

Friendly Avenue of Approach

THE first thing every credit man should and must do, in my opinion, is to establish, as nearly as possible, a friendly avenue of approach to the customers, thereby, being able to study the result of progress of the merchant. Many retailers have not had the opportunity to study carefully the different parts of his business. He has so many different things to look after that he cannot be a specialist in merchandising, credit work, insurance problems and many other things that are extremely important to his success. A credit manager can well afford to give cooperative attention to these problems of his customers, advising with him and educating him to the matter of proper practices. Furthermore, we find that the average retail merchant is not so conversant with proper standards of his business. He is not always sure as to what extent his rent, his labor expense, or his advertising expenses are sound investments or a waste of money. The Credit manager must inform himself as to these and be able to give such information to his customer. Many times the simple setting up of standards of business practice and of percentage relationship of and within itself, causes the customer to strive toward the realization of those better standards and to the establishment of more acceptable practices.

We, as skilled and experienced students of credits, often see trends on the part of our retail accounts which, if left alone, will in time consume that account. Therefore, within bounds of reason, it is a matter of benefit to the customer and to the sales department for us to study the financial statements of our respective customers, and to council the customer so that he may avoid failure. In the study of financial statements, one of the most important things to consider is the perpendicular relationships as well as the horizontal relationships. I mean by that, that we should consider the ratio of his stock of merchandise to his fixture investments, cash on hand, accounts receivable, and such other items. All these are on the asset side, but reveal startling information as to the success or failure of the retail merchant's operation. Many times information revealed in these statements when brought to the attention of the retail merchant saves him from becoming bankrupt, and therefore preserves a profitable outlet for our own business. It is true that some times a customer may actually show a condition of technical insolvency. With our help he may correct this situation and become again solvent, and in sound financial condition. However, you cannot shut your eyes to the fact that technical insolvency always precedes actual insolvency. Where such an unhealthy financial condition exists, as a manager of credit, we must begin to retrench in that account or to cause the account to correct its condition. The correction of these conditions will take the credit man into the study of his customer's business, such as, the ascertaining of his expense items, the relationship of profits to his sales, his advertising and his buying method. Such study will assist in the elimination of the cause of failure and make for successful business, and therefore, more successful sales.

Effect of Economic Change

IT cannot be overlooked that, in times of change in general economic conditions, merchants often look for advice to the credit department and will reveal facts and information to the credit manager that they will hide from the sales representative. Encouragement of this constant interchange of advice and information between the customer and the credit department, helps the customer to preserve his capital, to increase his income, to be a better retail merchant, which is the foundation of successful wholesale distribution. Credit managers should be able to show the sales department which customers are successfully living from their earnings and not from the consumption of their capital.

Many merchants overlook the fact that in times of advancing markets, their financial condition can become as dangerous and often as disastrous as is the case of declining markets. In the case of the present strength in the food market, (*Cont. on p.* 38)

Change as a Challenge in Credit

Improvements Must be Based Upon More Accurate Knowledge

By PAUL M. MILLIANS
Executive Department, American Credit Indemnity

There is nothing new, of course, about change. It has challenged every generation since the beginning of civilization. And though "the world moves on apace" and we shudder at the economic blight of some of our present thinking, we welcome change because we know that truth is not contained in things that have gone by. Unless business and our economy are absolutely at a standstill, precedent is the one thing we should avoid. Lack of change causes individuals and institutions to harden, to crystallize, to become inflexible.

So we welcome change. Its only challenge is that individuals and institutions must maintain an alert awareness to change and seek to adapt their creeds and philosophies and systems to it.

We have seen great and material changes in business and business practices since the birthtime of credit management about fifty years ago when, significantly enough, the National and local Associations of Credit Men were first effectively organized.

End of Frontier Methods

FIFTY years ago business still lived under the influence of a frontier economy. Management at that time was concerned chiefly with dynamic problems of trade expansion, and a spirit of opportunism in business was strong. Prices, which increasingly prosperous communities were willing to pay, provided a large margin of profit and this made waste unimportant. Perfections in management methods designed to eliminate waste—waste which would mean the difference between success and failure today—could be ignored. Credit management at that time was largely a matter of personal relationships; and credit losses which would be called excessive today were then considered "normal."

Time moved on and business lost these characteristics.

Growth of population and the production of new varieties of consumer goods greatly increased sales volume. This called for more production capacity which in turn increased the problems of production and supply. All of this created a need for greater investments in fixed capital to carry larger inventories and larger receivables. This forced a new attitude on the part of management and new approaches to management problems—that of predetermination of success, as nearly as this is possible, through a better understanding of the forces which condition business and through planning and control of operations in terms of these forces.

Strangely enough, in view of what the literature of American management teaches us, some business men still carry on in a spirit of pioneer opportunism. They indulge in a luxury of risks which prudent management avoids. Some still refuse to learn what the past teaches us about improved management methods. But in the main these things have passed from the American business scene.

New Economic Theories

ROUGHLY fifty years ago education began to take new form. The science of economics came sweeping in as a college subject. It went from the B. A. curriculum to graduate study. In these earlier days, simple terms like "supply" and "demand" were in common use and evidently fairly well understood. Economists like Adam Smith and John Stuart Mill had some standing.

But just as the pattern of business changed during the past fifty years, the pattern of our economy changed. With the world in social and political ferment in a post-war depression, world economy and our own economy became interlaced with old political philosophies clothed in new words and all sorts of new economic theories.

Simple terms like "supply" and "demand" apparently lost their meaning and their appeal and were replaced with resonant-sounding terms like "over-saving" and "under-spending," "over-production" and "under-consumption," "depressions" and "recessions." More recently we find in testimony before the Temporary National Economic Committee esoteric terms like "curviliniar functions" and "price-quantity regressions." These recent discoveries by our economic planners are more intellectually swank than simple terms like "supply" and "demand"; however, considerable fog still surrounds their meanings.

Most of the economic theories we held fifty years ago are about as out of date as some of George Washington's rules of civility. Adam Smith contended that saving was the prime force of progress. John Stuart Mill thought the spendthrift was an enemy to society. But for several years prior to the present defense effort the idea was to "prime the pump" by spending. This idea reached over into the field of commercial credit, and some very keen students of our economy were convinced that a liberal credit policy afforded an avenue of lasting prosperity.

Now we are in a defense emergency and emergency ideas are different. There are a host of ideas being put forth by various government officials to curb purchasing power instead of "priming the pump"; to control credit and money supplies instead of encouraging a liberal credit policy.

Greater Probability of Failure

BECAUSE of the greater number of forces which condition a business today there is now greater probability of failure in a single business than in any period of the past fifty years, although the general level of

credit risk is less now than it was fifty years ago. Proof of greater probability of failure is found in today's increased number of business hazards. In the fact that the curve of credit losses since the turn of the present century has not been as steep upward as compared with the volume of business, we find some proof of a lower general level of credit risk.

This lower general level of credit risk today, contrasted with fifty years ago, means that credit executives working through Credit Associations as the physical center for their efforts, have improved over the years the quality of credit judgment to meet the increasing problems of business survival.

Tomorrow's Credit Manager

WHAT of the next fifty years? Sometime ago I read a book entitled "The Next Hundred Years" written by C. C. Furnas, a Yale professor. The central theme of the book is the familiar one that man can do no better than he knows.

If we needed a text for discussing the future "background" for credit management, I think the central theme of Professor Furnas' book would excellently serve our purpose —credit management of the future can do no better than it knows. So for the purpose of our discussion I am contending that credit management's future "background" must be higher credit education and I should like to view it with you in three sections—improvement of present credit techniques, higher education in the field of business management, greater interest in practical research designed to relate cause and effect of business mortality. Let me elaborate.

The first part requires no particular discussion with members of N.A.C.M. One improvement in present techniques will naturally follow a course of developing more comprehensive credit information. Present efforts of the National Association of Credit Men to put the mutual interchange of ledger information on a sounder, more equitable basis should elicit the full support of every credit executive in this country. In some sections there has been fine cooperation between accounting and credit groups, and this should be widely encouraged because such cooperation tends to produce better credit information of a financial and operating nature. But information and interpretation are two different things. There should also be a continuing study and improvement in ratio and other types of financial and operating analysis.

Wider Knowledge Needed

JUSTICE DOUGLAS of the Supreme Court made the observation that those who appraise the risk of credit should "be able to penetrate the mysteries of the balance sheet and see the realities behind it." The "realities" behind every balance sheet are the men and methods and the business activities which have caused the figures.

Perhaps some will say that credit management should confine studies to the analysis of statements and not concern itself with the "realities" behind them. That credit management must develop unusual talents for comparative analysis and for the construction and interpretation of financial and operating ratios, is not denied. These things enable the credit executive to get deeper into his core problem of detecting symptoms of a failing condition. But is this enough?

If the credit executive stops with such talents—if he does not train himself to a better understanding of how men and methods work in business—he is limiting his opportunities. Credit analysis in the days to come is going to have to be approached from a larger viewpoint. The credit executive of the future should intimately know the problems of selling and purchasing, of production, of financing and of management generally. He should be able to distinguish good management from bad management.

Good management, successful management methods have distinguishing marks. They are not imponderable and entirely abstract qualities. Most of you have seen the patterns of "good," "fair" and "bad" management drawn up by the industrial engineering firm of Stevenson, Harrison and Jordan several years ago. The study produced this significant conclusion—"good management" works very uniformly with certain tools while "bad management" works very uniformly without these tools or else with them badly dulled.

Primarily concerned with failure, the credit executive should be able to go into a business and break it down, if the occasion warrants, find out why it doesn't make money, and then be able to prescribe remedies. The inability of a lot of men in top management positions to identify the why, how much and where of profit or loss is responsible for a great number of business failures. After all, the ultimate test of credit quality is whether the management of a debtor company is capable of making money under normal conditions. If it isn't, it's a poor credit risk regardless of capital structure.

There is nothing new or original in the suggestion that credit management train itself to see and appraise the performance of men and methods in a business, which Justice Douglas called the "realities" of the balance sheet. Indeed, there are many credit executives who now possess the all-roundness in business knowledge necessary for complete business analysis. They find numerous opportunities to build sales for their companies. They are equipped to help rehabilitate failing customers and to push over into the profit side customers right on the edge of success but who never quite make it.

More Research Needed

THE third and final part of credit management's "future background" should be a more professional study of the causes of business mortality.

Causes for business death cannot be isolated and measured under laboratory conditions for the very good reason that every business is highly individualistic. It would be delusive to think that even under laboratory conditions we could ever be able to feed a business just the right dose of success vitamins. Besides, there could never be assurance that an over-dose of the wrong kind of vitamins would not be fed from the outside. The danger of an over-dose from the outside is very great now.

For years studies have been made of totals of bad-debt losses in this country. These show an impressive regularity of business failures over a period of many years. There have been great variations in losses from year to year in some broad relation to the ups and downs of business. In the American Credit Indemnity Company we have reduced totals of business failures to various risk classifications. The probability of failure in these classifications is broadly known because it is statistically measured.

Studies have been made which show that the turnover of business population in this country is startlingly high. Dr. Willard Thorpe in testimony before a Congressional Committee said, "for each working day in this country 1300 new enterprises open their doors and 1150 disappear." The Hutchinson-Newcomer study of business survival in the city of Poughkeepsie, covering a period of 83 years, showed that only 16% of business concerns survived more than twenty years. 69% had a life span of less than ten years. The "infant mortality" was exceedingly high with 29% of the concerns studied living less than two years. Similar studies made by others in widely separated communities have shown nearly the same results.

OTHER studies of this kind support conclusions of considerable interest. For example, manufacturers and wholesalers survive on an average for longer periods than retail or service concerns. The corporate form of organization survives, on the average, better than individual proprietorships during the early years of business life, with this advantage possibly disappearing after a few years.

There's nothing final about these studies but they do seem to yield clues to practical research of a kind that would give valuable results. Knowledge like this compounded out of the experience of all and properly conserved should be helpful in holding down the rather staggering total of bad-debt losses in this country.

Any idea that we would eliminate or even substantially reduce the risk of credit losses by the improvements suggested is not intended. The game of business is intricate and there will always be a big element of chance in it. Indeed, let us hope that the outcome of every business venture will always hang in a balance for the essence of the free enterprise system is uncertainty. When we eliminate uncertainty we eliminate business as we in the United States know it.

Priorities, rising prices, price controls, high taxes—these and numerous other business influences incident to the present defense effort are partly temporary. They constitute serious risks now to business survival, and out of the present emergency new and perhaps entirely different risks will emerge. But whatever they are, however serious they may be, credit management can better cope with them through higher credit education.

Reducing Credit Losses

Better Credit Information Will Lower Default Ratios

By C. L. JAMISON

Professor of Business Policy, School of Business Administration, University of Michigan

The credit risk, when measured in terms of dollars lost from uncollectible accounts, is now, and always has been, one of the major risks of business. It gives the business man less concern than other risks, however, because of its predictability. The business man knows that his credit losses this year will be approximately what they have averaged in past years, some fraction of one per cent of sales. His only uncertainty is who the defaulting creditors will be. If he but knew that, he could avoid those specific risks and reduce his credit loss to a minimum.

The major responsibility of the credit executive is to spot the weak places and avoid them. He is deterred, however, from following this policy as zealously as might be expected by anyone unfamiliar with the credit profession. This deterrent is the fatalistic philosophy that credit losses are inevitable. The belief is that within limits they can not be avoided; indeed in some circumstances they should be courted. That is to say, a credit executive who is too conservative can drive away business which may prove profitable if in the end the account can be collected. In many cases it can be. Because of the predictability of the percentage of credit loss on a year's business it is possible to regard the credit loss as an expense of doing business. The business man, therefore, adds the percentage to his selling price and passes the loss on to his customer. Beyond this normal loss which is absorbed in selling price, there still is the risk of abnormal loss, a risk which is the credit executive's chief worry.

Take a Chance Theory

THERE is a principle of business that profits can be increased by taking chances. Chance does bring large gains in some cases but large losses in others. Over a period of time men who play with chance hope the gains will greatly exceed the losses. If the result is as expected the loss is accepted as justifiable. Its frequent occurrence, therefore, does not dismay the sophisticated risk taker. Whether in business or in other human activities, the loss of life or property is looked upon as necessary to the successful carrying out of a given project. Shock troops in battle are sacrificed to minimize losses in the waves of troops that follow. Houses are dynamited to check the spread of a great conflagration. Shares of stock are sold at prices below their cost to release funds for the purchase of other more promising securities. A portion of a crop is destroyed to keep it off the market where a still greater loss might be incurred by depressed prices. To know when to take a loss is one of the attributes of a sagacious business man. The successful application of this theory of risk taking is predicated on a large gain if a gain is realized. It may be said that if the hoped for gain does not equal the probable loss there is no justification for taking the risk. Now apply this theory to the credit risk. Assume that a credit sale of $1,000 is made. The profit on the sale is $200. If the account can not be collected $1,000 is lost. If it is collected $200 is gained. The possible gain is only one-fifth of the probable loss. A sales department which has incurred a loss of $1,000 through an unwise sale must sell $5,000 worth of goods to earn back in profit what was lost on the risky transaction. This may or may not be a good gambling risk depending upon the probability of loss, but it is not conservative business.

Better Control of Losses

THE credit profession has made commendable progress in controlling credit losses in the past forty years. Credit transactions have increased five fold in forty years whereas credit losses today are no greater than they were forty years ago. These comparisons are made on the basis of an adjusted dollar which removes differences in purchasing power between 1901 and 1941. The accompanying table presents the two index numbers on which the foregoing assumption is based. The index of credit losses is made from liabilities of business failures. The index of credit transactions is made from bank debits outside of New York City. The former figure does not reflect all credit losses, nor does the latter figure reflect all credit transactions. Nevertheless they are the most reliable figures available to statisticians, and they reflect with reasonable accuracy the relative magnitude of business transactions and credit losses.

Credit executives may accept with satisfaction this evidence of their increasing efficiency. They should not, however, be content. Credit losses can be still further reduced, and they should be. Yet there are three deterrents to further progress. (1) Credit investigations in general are not as thorough as they can be made. (2) Business is encouraged to take unwarranted credit risks because of the fatalistic attitude of business men

that credit losses are unavoidable and not only should be expected but should be courted. (3) Liberal credit terms have become an increasingly strong sales argument in keen competition for business.

Business men by taking counsel among themselves may change their attitudes in regard to the inevitability of credit losses. They also may agree among themselves that long credit terms increase the risk, and therefore, competition will be conducted on some other basis than liberal credit. These reforms, while important, are less urgent than improvements in the thoroughness of credit appraisals.

Thorough Research Needed

A CREDIT investigation is a form of research. Therefore, the credit executive should approach his task with the openmindedness of a genuine researcher. The researcher takes nothing for granted. He delves into every bit of research that heretofore has been conducted on the subject under investigation. This is important for two reasons. (1) He does not want to spend time and money covering ground that already has been covered. (2) He wants to know that he has not overlooked anything which other researchers have discovered. All business research is carried on for the purpose of eliminating waste, reducing costs and increasing profits. Credit research undoubtedly has the same objective. The method, however, differs from that of genuine research. Instead of trying to profit from all the research which has been conducted by others, the credit executive may look at some of it, or he may seek out facts on his own account and give no heed to what others have done. Instead of adding his own original discoveries to those of all the other investigators, he may duplicate what they have done and in the end be no better informed than they are.

If investigations as to the credit worthiness of individual debtors were carried on with the thoroughness that characterized other forms of business research, a greater number of the spots where credit losses are likely to occur probably would be uncovered. No rational person would intentionally extend credit to another if he knew beyond question of doubt that the debtor could not and would not pay. To know as much about the

Credit Losses from Business Failures Compared with the Volume of Business Transacted in the United States, 1900 to 1940

Year	Index of Credit Losses	Index-of the Volume of Business
1940	85.9	506.7
39	95.9	475.8
38	127.0	437.6
37	86.0	458.0
36	101.9	457.0
35	157.3	399.7
34	180.6	371.6
33	281.2	342.5
32	580.2	400.5
31	408.5	500.7
1930	313.3	539.3
29	205.4	585.4
28	205.1	532.1
27	220.8	497.3
26	165.7	451.9
25	173.6	416.8
24	224.3	390.9
23	217.2	376.5
22	261.3	346.7
21	260.3	330.4
1920	77.4	263.0
19	33.1	256.1
18	50.3	196.8
17	62.9	185.2
16	93.0	201.0
15	176.2	186.9
14	212.9	178.2
13	158.2	181.0
12	119.0	178.0
11	119.2	175.8
1910	116.1	159.5
09	92.5	154.6
08	143.1	141.8
07	122.6	149.1
06	78.1	150.1
05	69.2	139.8
04	97.8	123.5
03	78.4	121.8
02	80.8	119.0
01	82.8	118.5
1900	100.0	100.0

debtor as the debtor knows about himself may not be enough. The debtor may be blind to hazards that surround him which in time will bring him to ruin. What really happens in practice is that the creditor does not know nearly as much as the debtor knows, and on top of that makes a poor interpretation of collateral information, if he has any.

Cutting Investigation Costs

THE defense of the credit executive to his seemingly superficial investigation of risks is that the profit on an order may not be great enough to justify an outlay sufficient to uncover all of the needed facts. This leads to the fatalistic philosophy that a large percentage of debtors are honest, and, being honest, are not only willing to pay but are fair in their own appraisal of their ability to pay. A few of them do not possess that high degree of honesty and they will contribute to the expected or normal loss. This normal loss is passed on to all the customers who do pay.

Notwithstanding the customary superficiality of credit investigations, the amount of money spent by business for private credit organizations runs into millions of dollars. In addition there are general and special credit agencies also investigating and duplicating each other's efforts at a great expense to business. If all duplication could be eliminated and all the money now spent could be pooled, few debtors in the country could escape the searching investigation that would result from the pooled efforts, which should reveal weaknesses now unseen. The consolidation a few years ago of competing mercantile agencies was a step in this direction. As a result the quality of the reporting has greatly improved, and the total outlay has been reduced.

A credit investigation is directed toward two objectives, first to ascertain the ability of the prospective debtor to meet his obligation, and, second, his willingness to do so. One inquiry, then, is directed toward learning how much property the debtor owns, and what his commitments are against that property. These facts are presented in a statement of assets and liabilities. Accounting methods have improved greatly in the past forty years. Moreover, much of the former prejudice against giving out figures has been overcome. The ease with which a financial statement may be obtained, however, does not preclude the possibility of its being false. Intentional falsification of statements is discouraged by harsh false statement laws. Honest mistakes in the appraisal of assets may be made, and there may even be mistakes in reporting liabilities. If a single agency representing all creditors were to undertake an appraisal of assets and an audit of liabilities, a financial statement would be forthcoming that would be as accurate as it is humanly possible to make one.

Although the debtor may be possessed of valuable assets today, he may lack the capacity to manage his business successfully in the turbulent times which lie ahead. An examination of past profit and loss statements is indicative of the quality of management, but a judgment of management's ability would be strengthened by a survey of managerial policies. An exhaustive examination of this nature would be costly, but if all creditors united in paying for it, the expense to each probably would be no greater than the expense of the superficial investigations that are now made.

THE best proof of willingness to pay is payment. A concern

which always pays its obligations in accordance with the terms of its contract may be presumed to be healthy and honest. A concern which is under-capitalized or is doing an unprofitable business may pay a few creditors promptly in order to establish a reputation as a good risk. The accounts of other creditors may be neglected. In order to locate weak risks it is essential to know the ledger experience of every creditor. Given this information, the credit executive can separate good risks from doubtful ones. Investigation then can be concentrated on the doubtful risks. Such procedure will reduce the number of debtors who are to be subjected to the thorough investigation described in the preceding paragraph. In many cases the investigation will be made in time to rehabilitate weak concerns and save them from ultimate failure. The adjustment bureaus of the National Association of Credit Men have the facilities for doing this.

A solution of the credit problem largely rests upon the universal exchange of ledger experience. The Credit Interchange Bureaus of the NACM are doing their best to render this valuable service to credit executives. Only a part of nation's creditors contribute information to the Bureau, which is a great handicap to it. Unless and until all ledger accounts are represented in the files of the Credit Interchange Bureau, and kept up to date, the highest achievement in credit appraisals can not be realized. Credit executives have gone a long way in eliminating credit losses. They still have a long way to go.

Hard to Please

A farmer had a son at college. At the end of the first year the son came home in high feather. He stood second in his class.

"Second?" said the father. "Second! Why didn't you stand first? What do you go to college for?"

The young man returned for his second year, determined to win first place. At the end of the year he returned home and announced his success.

The father looked at him for a few minutes in silence, then shrugged his shoulders, and said: "At the head of the class, eh? Well, it can't be much of a college, after all."

Important Credit Problems for 1942

(*Continued from page 7*)

agree in every detail with the records that they have in front of them, a delay usually takes place.

Where Errors Cause Delays

THE possibility of a long delay is particularly true where large companies are involved. Here, no credit problem per se exists, but if for any reason at all General Electric, General Motors, or any other Grade "A" risk does not pay your invoice when it is due, the amount of money involved is tied up for the present just as though it were due from a slow-pay customer. Because of this, the large companies must be followed at shorter intervals and with more direct personal contacts than ever have been thought necessary before. By means of these contacts you can make certain that you have complied exactly with billing instructions, that your invoices are securing the necessary approvals quickly and that they will be ready for vouchering and payment well within the regular terms of sale. It used to be that one had a good spread of risk throughout his receivables, in that the amounts due from any single company or any small group of accounts was not particularly large. Now one often finds a situation where a relatively few customers account for a substantial percentage of your receivable total. Terrific amounts of money are involved, and you can rather easily secure a nice improvement in your average collection period if you insure prompt, or even anticipated, settlements on these particularly large accounts.

During this period, the credit manager's thinking and planning should be dominated by conservatism. Under ordinary conditions, his goal is the greatest possible sales with minimum losses. He cooperates quite fully and completely with the salesmen. Indeed, he must be an extra salesman, continually looking for ways and means of increasing volume. Today the shoe is on the other foot. Now he must emphasize the idea of safety rather than sales possibilities, and it is the sales department that must go out of its way to be extremely helpful in keeping down prospective losses. We should secure for our company every bit of protection that is possible on every one of our accounts. Where in the past, terms have been worked out involving third party guarantees, assignments, endorsers, conditional sales agreements, chattel mortgages and other protective measures, we should continue to receive these safeguards on current shipments. The same is true of new accounts being opened, where added security is possible in one form or another. In most cases there will appear to be no need for alarm about today's or tomorrow's shipments. Regardless of this, we must go ahead and regularly secure this extra margin of safety where added protection might be helpful in the event of a sudden collapse. Some day this caution will stand us in good stead.

Why Wait for the Crash?

IT is much easier to continue to get guarantees and endorsements, or to open up new accounts on some secured basis than it is to go along until the peak is reached and then to jump in suddenly and try to insist upon such terms. Undoubtedly all of you can recall concrete examples of these different procedures. From my own experience, I think it safe to conclude that a program providing protection at all times pays off much better in the long run than does a policy of attempting to cover up at the last possible moment. A satisfactory conclusion under the latter plan assumes that you and I will be clever enough to anticipate the peak sufficiently in advance to properly protect ourselves before it is too late. The timing is most important and probably very few of us have the ability to foretell exactly the right moment to step in. Even assuming that this could be done, you undoubtedly would create more lasting ill will than is the case if your dealings from the start are on a restricted basis. The effect on a customer is quite negative, since near the crest he feels better able than ever before to meet his obligations. Furthermore, after a period of dealing on straight open account terms, you do not have any precedent to back up your changed demands.

It is most important that you turn your receivables rapidly and keep them highly liquid at all times. Customers that do not pay promptly now will have real trouble in meeting their obligations when this present period is past. Because of this, I would suggest that before too long you go through your accounts and in a determined manner weed out those customers that are hazardous risks. This does not mean to imply that C.O.D. terms should be invoked overnight or that these customers should be abruptly dropped from your calling or mailing list. It is suggested that this procedure might be advisable if within a reasonable period you are still unable to arrange better paying habits, additional security, shorter terms of sale or other protective measures that will allow you at least a fair degree of safety. It is not an easy problem but with intelligent planning and careful handling you should be able to show considerable improvement over the coming months. The small volume of business that might ultimately be lost by such a policy could be made up several times over by expending the equivalent effort either on new accounts or on old customers that are financially better able and more willing to meet their commitments promptly.

The Credit Department's Function

AS you can see, my whole thought is an emphasis upon the credit manager's function as the watch dog of profits. This means that during this period he must be the very one to say "no" and probably say it often. At the moment additional volume is not required. What is all important is that when the credit collapse comes, you, as credit manager, will stand out in the eyes of management as the person that has protected the profits earned during this active period. You will be the individual directly responsible for the collection of outstanding accounts. You will be the one that must quickly accomplish this orderly liquidation in order to provide the necessary funds that will be urgently needed at that time. To the degree that you are successful in this program, so will you be recognized as truly a credit executive, one who is ready and able to assume a more active part in the executive management of your company.

I am confident that this can be done if we will but do it.

13 States Have Most Buyers

Purchases Here Exceed Other 35 States in Union

Credit men and financial officers who look with broadening vision to the final net profits of their companies are now cooperating with their sales departments to help in every way possible to increase sales. Credit men are in just as advantageous a position to know about the activity of markets as are sales managers. A market may be classified as "active" in the sales department but the credit and collection department knows from its records if these "active" markets are really profitable. The following extract from a recent article in the Wall Street Journal of New York City will be of deep interest to these sales-minded credit men.

"Are you trying to sell something? Well, here's a tip. Concentrate your activities on 13 states (we'll name them in just a minute) and you'll be tapping the bulk of the nation's buyers.

"Residents of these 13 states, in which live more than 58% of the country's total population, buy more goods and services than all the other 35 states combined. And, this is important, approximately three-fourths of the country's individual federal income taxpayers reside within their boundaries.

"Here they are: California, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, Texas and Wisconsin.

"As you probably noticed, the nation's star customers are not confined to any one section of the country, although a good portion of them are located in the industrial areas of the middle west and the east.

"But you don't have to take our word for any of this. It's all down in black and white, with a lot more, in

the latest revised edition of Population and its Distribution, compiled by J. Walter Thompson Co., and published by Harper & Bros. Some of the other pertinent facts to be found in this volume are an alphabetical list of all incorporated places with a population of 500 or over; number of persons per income tax return for each county; distribution of population, both in terms of individuals and family units.

"In addition, there are summary tables covering states by population, occupied dwellings, income tax returns, residential telephones, wired homes, radio homes, automobiles registrations and major groups of 1939 retail sales.

"But let's get back to our 13 states. A quick glance at the figures shows us that 68.19% of all residence telephones are located in these states, as are 63.26% of the total passenger automobiles, and 63.38% of home radios.

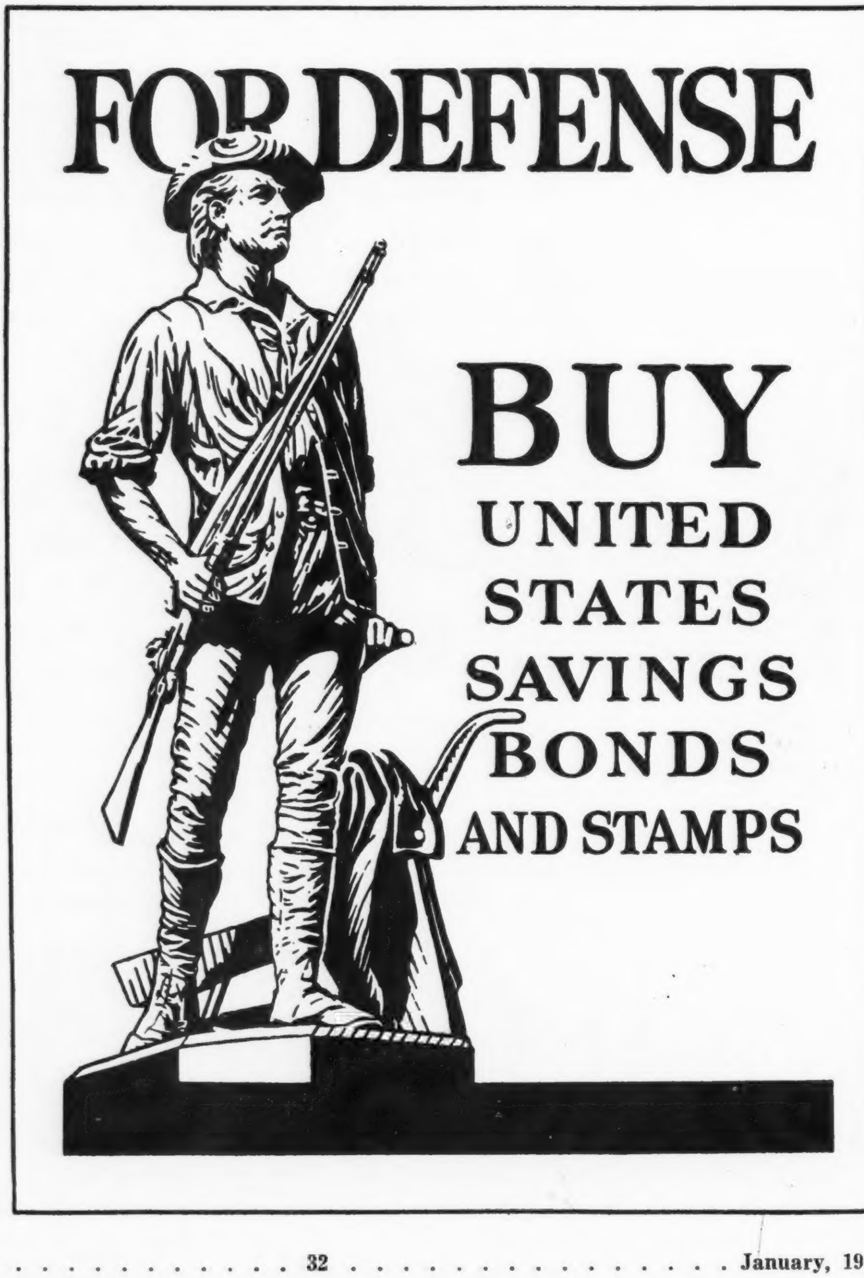
"Heading the list, of course, is New York. With 10.24% of the country's total population, the Empire State has 17.26% of the nation's income taxpayers, 11.33% of its residence telephones, 8.89% of passenger cars and 11.27% of all home radios.

"A rather interesting situation is revealed by the figures for California. This state has only 5.25% of the nation's population, but its percentage of income taxpayers, telephones, automobiles and radios is much greater, being 8.66%, 8.01%, 8.82% and 6.33%, respectively.

"Indiana presents an odd picture. Here's a state which accounts for 2.60% of the total population and has only 2% of the country's income taxpayers. But, despite this, the figures show it has a greater percentage of automobiles than several other states which have larger percentages of both the population and taxpayers.

"For example, Indiana's percentage of automobiles is 3.24% while that of Massachusetts, which has a population figure of 3.28% and income taxpayers of 4.89%, is only 2.94%.

"The foregoing is just a brief resume of what you'll find in the book's 429 pages, but it's enough to give some idea of what it's all about."



NEWS ABOUT CREDIT MATTERS

A section devoted to Credit Association affairs

January, 1942

Copy deadline 15th of month

Nat'l Institute Is Recognized by N. Y. State Board

New York: The New York Chapter of the National Institute of Credit has received the endorsement of the State Education Department at Albany so that credits granted by the Chapter are now recognized towards several types of State educational requirements. The letter from H. L. Field, Chief, Bureau of Qualifying Certificates, State Education Department, is as follows:

"On the basis of an inspection of the courses offered by the New York Chapter of the National Institute of Credit at 354 Fourth Avenue, New York City, the State Department of Education finds it possible to approve for credit, individual courses satisfactorily completed by applicants who desire to meet the requirements for an approved course in accounting toward admission to the C. P. A. licensing examination, or for applicants for a law student qualifying certificate. The department also sees no objection to an individual college or university granting appropriate course credit to an individual who meets the full requirements for matriculation and desires to continue his work toward a registered degree."—(Signed) H. L. Field, Chief.

Foreign Traders Talk Over Problems of War in Far East

"War in the Far East" was discussed at the regular monthly luncheon of the Foreign Trade Division of the Chicago Association of Credit Men, Thursday, December 11. Particular stress was laid upon the effect to exporters and importers of Japan's attack on the United States, the British possessions and the Netherlands East Indies, and also the declarations of war by these governments and the Central & South American governments against Japan. The meeting was largely attended, particularly by members from nearby cities in Illinois, Indiana and Iowa. The entire meeting was devoted to questions and answers on credit and exchange conditions, export priorities, treasury regulations, import controls, etc.

The Association closed its fall program

(*Continued on page 36*)

Defense Committees Will Serve as Information Posts

Salt Lake City: National President Ray Wilson was one of the principal speakers at the Utah State Bar Association meeting held in Salt Lake City on December 5. Mr. Wilson made a plea for more local patriotism, declaring that "We must do something as a nation to stop the conflagration now going on in Europe." Continuing, Mr. Wilson said, "In this world you either rule or get ruled. We are fighting two wars in the United States, one against outside aggression and another, internally, between the fifth columnists and free-enterprisers."

Mfg. Confectioners and Nat'l Food Groups to Meet in Chicago

Chicago: A joint session of the National Food and Allied Lines Credit Group and the Manufacturing Confectioners Credit Group will be held in Chicago on January 23. Credit managers and their assistants from all companies in the two industries, whether members or non-members of the National Association of Credit Men, are invited to attend. Mr. Frank Miller, of Best Foods, Inc., is Chairman of the Food Group Conference Committee, and Irene Austin, of Thinshell Products, Inc., Division of Consolidated Biscuit Company, is Chairman of the Confectioners Conference Committee.

Turkey or a Manual for a New Member

Seattle: A choice of a turkey or a 1942 Credit Manual of Commercial Laws was offered to every member of the Seattle Herd of Zebras qualifying with two points in a recent membership contest. The winners of points are then eligible for selection as delegates-at-large to the National Credit Congress to be held in Cincinnati next May. The Seattle Herd is quite definitely on the move and promises several additions to the Association roster before the year closes at the end of April.

Associations Are Asked to Name Groups to Help in Important Work

It is proposed that each of the local Associations comprised in the National Association of Credit Men set up a Defense Committee consisting of three to five persons. Such Committee would act in cooperation with a member being assigned from the Executive Staff of the National Association. It would serve members of the local Associations, as well as the Government, in an informative way in connection with the Government's war time industrial work—work which members are endeavoring to secure or which is already in process by them but not completed.

Neither these Committees nor the Executive Staff member will in any manner attempt to negotiate contracts or secure orders for members, make collections, act in a legal capacity, or otherwise function in their behalf excepting as above stated—that is, as an informative guide to, and liaison between, Association members and the Governmental agencies concerned.

In its Defense Program, the Government has need of the full and earnest cooperation along the most efficient lines of small industry as well as large. The efforts of these Defense Committees would be directed toward the coordination and integration of the activities of interested Association members, with the purposes and objectives of our Government in industrial defense.

The needs, facilities and problems of specific localities and groups would be carefully studied by these Defense Committees and thereafter, when advisable, factual material transmitted to the proper Governmental departments, through a local Government Defense representative or through the Executive Staff member mentioned. Also, from time to time there might be placed before the Government as a result of surveys made, suggestions for ways and means for defense manufacturing, supply, etc.; also suggestions for new or revised legislation of a helpful sort bearing on, and related to, industrial defense. The carefully thought out cooperation of the local Associations in this matter will also lend itself toward supplementing the efforts in various ways of the

National Association's Washington Bureau in serving the requirements of our members. Aided by this cooperation, the National Association through its Executive Staff representative will place a magnifying glass on the industrial defense program of the Government with relation to contracts, credits, priorities, allocations, bonds, etc., as touching the special interests of those within our credit group and thereby be in a position to make needful suggestions to the Association members and the Government, as well as serve as a guide and aid in many ways in the members' defense participation.

In forming the Defense Committees under consideration, care should be exercised to appoint members of our Associations who are closely concerned with, or actually engaged in, Government Defense work. Each Defense Committee among other things, should contact the OPM or other Government representative in their particular district in order to ascertain more definitely what is needed or required by the Government, as well as to be able to define to the Government just how the local Association members are best equipped or qualified to carry through on the Government's defense program.

There will likely be many problems arising in industrial defense peculiar to the various sections of our country and if these can be carefully examined as related to the Government's needs, and recommendations made either to the local Government representatives or directly to Washington, as the case may require, much benefit will undoubtedly result to the members of our Associations.

The Executive Staff representative of the National Association working with the local Defense Committees, will endeavor to keep thoroughly informed on all phases of the Government's Defense program so that, as stated, the fullest assistance may be rendered to Association members who have need for answers to numerous questions that ordinarily arise as a consequence of engaging in an activity of this character.

LACMA Chapter Sponsors Forum Dinner Jan. 15th

Los Angeles—The local Chapter NIC will sponsor an open forum meeting and dinner with the Los Angeles CMA on January 15 at the Town and Gown Club, USC. The Los Angeles Chapter this year is enjoying a peak membership, and under Pres. Wm. Cunningham has scheduled a series of pertinent meetings. In November, a large turn out heard Dean R. L. McClung of USC speak on "Inflationary Controls," analyzing defense expenditures and present plans for curbing purchasing power, as well as the tax picture and the importance of investment in defense bonds. Pictures of Sun Valley shown through the courtesy of Union Pacific RR were a second feature of the dinner meeting.

Chattanooga: John Stagmaier has just completed his twenty-eighth year of service as President of the Adjustment Bureau of the Chattanooga Association of Credit Men. Mr. Stagmaier, of Stagmaier & Co., of Chattanooga, has been made an honorary Director of the Adjustment Bureau for life. This is an excellent continuous service by one man and also reflects his excellent record for civic works in his home city.

Mine Suppliers Hold Quarterly Meet at Pittsburgh

Pittsburgh: The eleventh quarterly credit conference of the National Coal Mine Suppliers' group, held at the Fort Pitt Hotel on December 11, brought one of the largest attendances ever recorded by this group.

The morning session was devoted to discussion of customer accounts, and it was marked by a number of interesting exchanges of information regarding the handling of certain types of accounts.

At the noon luncheon Lee H. Funcke, of the Clyde E. Speer Coal Company, spoke on "Selling and Distribution Problems of Coal."

During the afternoon forum E. J. Osborne, C. N. Replogle and John T. Anglin led discussions on topics of importance to the group members.

Carl Wolter Goes to Youngstown, O.

Cleveland: Carl M. Wolter, who has served as Assistant Secretary of the Cleveland Association of Credit Men for the past three years, is now Executive Manager of the Retail Credit Bureau at Youngstown, Ohio. Mr. Wolter came to Cleveland from the Chicago Association. He has many friends in both organizations who will wish him success in his new field of endeavor.

Men In Service

Cincinnati—John McLean, of the Graybar Electric Co., is now a First Lieutenant in the Ordnance Department and is located in the Enquirer Building, in this city.

Gordon M. Levine, of Louis Levine & Sons Co., is in the Army now as a private in Company T, 7th Regiment, Q. M. R. C., Camp Lee, Va., T-497.

Omaha—Harold C. Greer, formerly in charge of credits at the Western Paper Co., has been drafted in the Army and is now a private in Battery B, 34th Battalion, 9th Training Regiment, FARFC, Fort Sill, Okla.

Cincinnati Hard at Work on Plans for NACM Congress

George J. Gruen, General Chairman of the Forty-seventh Annual Credit Congress to be held in Cincinnati, May 10-14, 1942, reports steady progress in selection of Committee Chairmen and personnel.

While there is much work which cannot be undertaken too far in advance of the Convention date yet every step is being watched by Mr. Gruen and his Executive Committee to see that nothing is put off for the future which cane be done now.

Selection of Headquarters Hotel has been made and the Netherland Plaza is named. The Gibson, which is almost within a stone's throw will be used by several large units as their headquarters and will be a very popular place during those busy Convention days. Hotel Sinton and Hotel Fountain Square also within a block of Headquarters will be liberally patronized.

Cincinnati, with four of its leading hotels located approximately within one block of each other, presents an unusually convenient situation, and this advantage will be thoroughly enjoyed by those attending.

Banquet Instructors and Students of Chattanooga Class

Chattanooga: The Chattanooga Association of Credit Men gave a complimentary dinner on December 9 to the instructors and fifty-six students enrolled in the Credit Analysis Class. Miss Freda Cooper was in charge of the entertainment. The lecture course is conducted by the Education Committee of the Association. Following are the subjects of lectures and speakers: "Opportunities in Credit Work," Corbin Woodward, The Chattanooga Medicine Co.; "Sources of Credit Information," W. W. Roberts, Noland Co.; "Credit as an Asset in Business," Warren A. Jeffords, American Lava Corporation; "Mechanics of the Credit Department," C. Callaway, Jr., Crystal Springs Bleachery and Paul J. Viall, The Chattanooga Medicine Co.; "Collection Correspondence," J. H. Mowrey, McKesson-Duff Drug Co.; "Personal Collections," C. W. Smith, Ragland Bros. Co.; "The Debtor, the Creditor and the Law," Jere T. Tipton, attorney, Shepard, Curry, Levine and Tipton, attorney; "Negotiable Instruments," J. H. Spaulding, Hamilton National Bank and L. F. Wilkerson, attorney, Wilkerson and Wilkerson, attorney; "Summary of the Course," C. R. Hamesch, Cavalier Corporation.

Mr. J. H. Spaulding, Chairman of the Education Committee, announced that the Association would sponsor a lecture course on Insurance, after the first of the year.

Credit Education Marches on in Local Associations

Tacoma—An educational class was begun in mid-November. E. B. Lung, Ass'n Sec., reports O. H. Judd was elected Pres., and C. O. Panks, Vice Pres., with Mrs. Della Flynn serving as Secretary. The class meets every two weeks and each member of it will be expected to carry part of the program and act as Chairman at one meeting. A prominent teacher supervises as "commentator and critic." Subjects planned for coverage are: Credits and Collections, Economics, Business Law, Parliamentary Procedure, and Public Speaking.

Waterloo—For its third annual study course the Waterloo Chapter is taking up "Financial Statement Analysis," having previously studied "Credit and Collection Principles and Practices," and "Modern Business English Letter Writing," F. F. Struthers, Ass'n Pres. reports. Eighteen are enrolled in the class. The local class in Business English, earlier in 1941, expanded its educational work by presenting a demonstration on the subject at the Annual Tri-State Conference at Sioux City in February. This was repeated before several other credit groups and resulted in arousing interest and revealing need of training in Business Correspondence.

Shreveport—The local Chapter NIC began its Fall course in Financial Statement Analysis late in September with 21 business and credit executives enrolled under the instruction of J. G. O'Brien, Vice Pres. and Trust Officer of the Commercial National Bank. Officers of the Chapter for the current year are: F. Drake Lee, Shreveport Long Leaf Lumber Co., as Pres.; R. J. Ogilvie, Ogilvie Hardware Co., as Vice Pres.; W. L. Murdock, Shreveport Ass'n, as Secretary.

Louisville—The November meeting of the local Chapter heard Prof. Charles W. Williams of the University of Louisville make some exciting predictions about national affairs during 1942. Among his forecasts was the statement that the coming year will bring "more of the same brand of breathless prosperity," which this country experienced during 1941. Although declaring that inflation had arrived, he warned his hearers "don't bet on inflation raising stock prices."

Lincoln—A course in Modern Business English with special emphasis on business letters is being sponsored by the Lincoln Chapter with an enrollment of 22 students under D. B. Marti, it is reported by H. O. Murphey, Educ. comm. chmn.

Peoria—Classes in Analysis of Financial Statements were started on December 1, being in charge of J. M. Seamon, Illinois Certified Public Accountant. The course was developed under the leadership of H. G. Eckhoff, Keystone Steel & Wire Co., Educ. Chmn. of the Peoria ACM.

New York—A series of four lectures is planned by the Credit Education Comm., headed by R. F. McCormick, Wm. Iselin & Co. The dates of the lectures and names of lecturers will be announced shortly. The theme will be "Economics and Credit Today."

Meadville—Special Agent R. H. Hallerberger of the FBI discussed its work and presented a film, "Men of the FBI," at the Dec. 10 meeting of this Chapter, at the Talon Club House. The next meeting is scheduled for Feb.

Baltimore—Marking the course's 23rd year, 18 students began study of Mercantile Credit under the auspices of the Baltimore ACM in Oct. The course, given at Johns Hopkins Univ., is taught by George J. Clautice, who has been the regular instructor since its start in 1918 with 28 students. To date, 630 students have been awarded certificates for the course, which is credited toward degrees by the School of Business Economics at J.H.U., as well as toward the NIC Associate and Fellow Awards.

Chicago—The local Chapter, NIC, devoted its Dec. 10 meeting to "Analysis and Use of Credit Reports." H. E. Kroll, Dun & Bradstreet, Inc., spoke on "How to Analyze a Dun & Bradstreet Report." I. R. Wager, General Credit Manager, and E. J. Brach & Sons, Chairman, Credit Interchange Comm., spoke on "How a Credit Man Uses a Credit Interchange Report." W. L. Haney, Bureau Manager, discussed "What to Look For in a Credit Interchange Report." A round table discussion of actual reports followed.

Toledo—A class in Economics starting Jan. 21 at the YMCA and one in Financial Statement Analysis starting Feb. 1 in Toledo Univ. are scheduled at the Toledo Chapter NIC which completed its course in Advance English in Dec. The Credits & Collections course closes in the middle of Jan.

To Help Youths Pick Careers

Detroit—Association Secretary L. E. Phelan has been appointed a member of the Program Committee of Wayne University to arrange the Business Careers Conference in January, the purpose of which is to aid High School Graduates and First Year College students to select the vocation in which they seem to be best fitted and then direct their studies accordingly. The business Careers Conference of the Wayne University is headed by Professor S. A. Larsen, Department of Business Administration.

Obituary

Atlanta: Credit men in the Southeastern area, especially those who hold a membership in the Atlanta Association, mourn the death on December 4 of P. S. Brownlee, Southeastern District Credit Manager for the Kraft Cheese Company. Mr. Brownlee was a veteran member of the Atlanta Association and has helped on the work of many important committees.

Foreign Traders Talk Over Problems of War in Far East

(*Continued from p. 33*)

of lectures with a complimentary dinner to the students in the class for Junior credit executives, studying credits and collections and the class for Senior credit executives on Insurance Problems. More than 100 were present at the dinner including officers and directors of the association. Eight half-scholarships were awarded to the following in the Central YMCA College course on Credits and Collections conducted by Arthur L. Stang, Credit Manager of the Cracker Jack Company:

H. F. Driscoll (Bell & Howell Co.,), Marian S. Etten, (The Flintkote Company), William Metz (Jukes & Shafer, Inc.), F. L. Steging (Nu-Enamel Corp.), A. H. Pfeiffer (Zion Industries, Inc.), Wm. C. Wild (Comptometer Company), Pearl Podore and Glenn L. Clark (Container Corp. of America). In addition to the scholarships awarded by the association the Credit Women's Club of Chicago presented half scholarships to Miss Etten and Miss Podore, making a full scholarship for each.

Credit Fraternity Fund Headed by Meckauer

New York—Reports on the successful "Good Neighbor" banquet staged by the Credit Fraternity Fund on October 27 at the Hotel Astor, at which 1,100 credit executives from the New York-New Jersey area were in attendance, were presented at the meeting of the Board of Directors of the Credit Fraternity Fund on December 9, at which time new officers for the Fund were chosen for 1942.

James A. Stack of Stern & Stern Textile Importers, Inc., who was Chairman of the Committee for Arrangements of the "Good Neighbor" banquet, presented a certified report which revealed that the Credit Fraternity Fund had benefited to the extent of $2,549.84. This will be added to the other funds of the organization which are used in efforts along rehabilitation and reemployment lines among unemployed credit executives in this area.

The officers chosen at the meeting were: President, Henry Meckauer; first vice-president, John L. Redmond; second vice-president, Henry C. Scheer; third vice-president, William H. Pouch; secretary, Edward F. Addiss; assistant secretary, William Sage, Jr.; treasurer, Joseph Rubanow; assistant treasurer, James A. Stack.

The new Directors chosen at the meeting included: John H. Jephson, John P. Maguire & Co.; Winslow A. Parker, Southeastern Cottons, Inc.

Christmas in N. A. C. M.

Cleveland: The annual Christmas party was held at the Hotel Cleveland on December 17th. In spite of the war and the altered business conditions, the party was one of the largest in the history of the Cleveland Association. David Ott, Chairman of the Committee on arrangements, provided a lot of fun for those attending from early evening until the late hours.

Cincinnati: Members of the Cincinnati Association of Credit Men gathered at the Cincinnati Club on Saturday, December 20th, for their Christmas party. A large number of special prizes and door prizes were presented by members for distribution by Santa Claus. The Board of Directors of the Cincinnati Association sent out very attractive Christmas cards, a feature of which was a coat lapel button in the form of a Vigilantia seal for the men and a special pin with a Vigilantia seal for the women members.

Toledo: R. C. Ward, of the Sun Oil Company, was chairman of the program and entertainment committee at the annual Christmas party of the Toledo Association of Credit Men held at the Waldorf Hotel on December 18th. Each member was requested to bring a 25 cent toy or funny present which was distributed by Santa Claus out of the grab bag.

Dayton: The invitation to the annual Christmas party of the Dayton Association of Credit Men was headed "Spizzeringtum!!!" with the admonition "We cannot tell you what it really means but you can learn its true meaning if you will come to our Christmas party Tuesday, December 16th, at the Biltmore Hotel."

Boston: The annual Christmas party and ladies' night was held in the Renaissance Room of Hotel Touraine, on December 18th. Kenneth G. MacKay was general chairman of the entertainment committee. Santa Claus distributed a number of gifts and prizes which had been donated by members.

St. Louis: Henry H. Heimann, Executive Manager, was the speaker at the Christmas party and dinner dance of the St. Louis Association of Credit Men held at the Hotel Jefferson on the evening of December 20th. The banquet at which Mr. Heimann spoke was followed by a floor show and dancing.

Milwaukee: Santa Claus came down the chimney at the annual Christmas party of the Milwaukee Association of Credit Men held at the Milwaukee Athletic Club, December 20th, and left presents and door prizes which included shoes, a $24.00 radio, change of motor oil, electric clocks, gloves, food products, record album, mirrors, lamps and many other interesting articles. The program started off with dancing at 9 o'clock with a floor show being presented at 10:45. (*Continued on p. 38*)

Credit Women of Four Cities Form New Study Clubs

Four new Credit Women's Clubs were organized during the past two months. These are at Oklahoma City, Birmingham, St. Paul and Amarillo, Texas.

The Women's Wholesale Credit Club of Oklahoma City started off in November with twenty-five members under the leadership of Iris Deck, the President; Vera Hambay, Vice President; Ruth Argo, Secretary and Treasurer.

The Credit Women's Club of the Alabama Association of Credit Men started early in December with twenty members. Mary Neason is President; Mattie Lou Gresham, Vice President; Minnie Malone, Treasurer; and Muriel Williams, Secretary. The work of organizing this club was helped along by Walter English.

Thirteen women signed as Charter Members of the new Credit Women's Club at Amarillo at an organization breakfast held on December 7th. Juanita Frieze is the Charter President; Celia Morrow, Vice President; and Josephine Boyd, Secretary-Treasurer. Five members of the El Paso Texas Credit Women's Club went over to Amarillo for the Sunday morning breakfast and organization meeting. Greetings were also received from the Women's Credit Club of Albuquerque, New Mexico.

The St. Paul Credit Women's Club is under way with a roster of active credit women under the leadership of Isabelle Wright as President; Esther Carlson, Secretary; Frances O'Sullivan, Treasurer; and Helen Nordgren as General Committee Chairman.

This makes a total of 36 Credit Women's Clubs now operating under the general supervision of the National Credit Women's Committee.

San Francisco: The monthly meeting of the Club, held on December 17, was purely a social gathering—the Annual Christmas party. Aside from enjoying the gaily decorated tree and table and the entertainment features, there were distributed "white elephant" exchange gifts among the members and guests present. Also, each member brought an individually wrapped Christmas box of edibles for mailing at this meeting to a deserving soldier boy at Camp, whose name had been obtained with others through the proper channels.

New York: "Home Defense," subject of the talk delivered by A. Marks Smith, a West Point graduate, and secretary of Jas. C. McCormick, Inc., before the N.Y.C.W.G. at its regular monthly dinner meeting December 4, takes on an added significance in the light of recent developments.

The Annual Christmas Party, held on Dec. 29, was a grand party. Men in the Nation's service, on leave in New York, were special guests. The party was held at the Fifth Ave. Hotel. Gloria Siebrecht

was chairman of the committee on arrangements.

Syracuse: The Women's Group, of the Syracuse Association of Credit Men, awarded their first "March of Credit Scholarship" to Miss Edith Oldfield. A particularly busy season is in progress and the enthusiastic program activities will insure our delegate to the National Convention in Cincinnati.

Minneapolis: At the Christmas party of the Minneapolis WCWC the special feature of the program which followed the dinner was Dickens' "Christmas Carol." It was read by Miss Elaine Kaeding of Babson Bros., who also gave an original monologue, presented by the scholarship committee, depicting the benefits derived from credit education classes. The group sang several Christmas songs under the direction of Miss Mae Nelson, Westinghouse Electric Supply Co., who sang "Bethlehem" as a solo. A delightfully rotund and jovial Santa Claus who bestowed gifts on all, proved to be Miss Agnes Christianson of Flour City Brush Co. Games completed the evening's fun. Miss Isabelle Wright, president of the newly organized club in St. Paul, was guest of honor.

Newark: The New Jersey Credit Women's Club sponsored the annual Christmas party of the New Jersey Association of Credit Men held on December 12th at the Hamilton Restaurant. Santa Claus was on hand for a big distribution of presents for all those in attendance.

Atlanta: Paul M. Millians, of the American Credit Indemnity Company, was the speaker at the Executive's night held on December 18th. Mr. Millians, a former Atlanta business man, talked on "Behind Today's Balance Sheet." The annual Christmas entertainment of the Credo Club was held on Saturday, December 20th, at the home of Marjorie Jennings.

Grand Rapids: The annual Christmas party on December 9th was in charge of the women members of the Association and set a new high record for such events among the Grand Rapids N. A. C. M.'ers. Six members of the Grand Rapids Credit Women's Club presented a broadcast over WLAV recently in a special skit written by Mrs. Eugene Spraker. The skit stressed the dangers of overloading with installment obligations and offered a better understanding of the function of credit.

Philadelphia: The Philadelphia Credit Women's Club joined with the Credit Men's Association of Eastern Pennsylvania in the seventh annual Christmas party at the Ritz-Carlton Hotel on December 13th. A social hour preceded the dinner which was followed by entertainment and dancing. The program was in charge of Harriet I. Russell for women and L. J. Gunson for men.

Pittsburgh: The annual Christmas party of the Pittsburgh Credit Women's Club was held at the Congress of Clubs on December 22nd. One of the feature presentations was the Mason Marionettes showing "Babes in Toyland."

Binghamton: The Triple Cities Association of Credit Men and the Triple Cities Credit Women's Club joined in an annual Christmas party at the Elks Club on December 11th. A social reception and cocktails preceded the dinner which was followed by dancing and entertainment.

Toledo: The Toledo Credit Women's Club celebrated Christmas on December 2nd at a big party attended by forty members and their guests. The after-dinner program brought Santa Claus with a distribution of gifts which had been provided by members for a grab bag distribution. Mrs. Harriet Silvers was Chairman of the Committee in charge of the program. One of the features after the Christmas dinner was the showing of some motion pictures of an outing held by the group last summer.

St. Louis: The Credit Women's Club of St. Louis celebrated Christmas at its December 18th meeting. This club, the second oldest Credit Women's Club in the United States, honored the founders of the club—Nell Alexander, Clara Cramm, Oma Koch, Julia Ulrey, Helen Henke and Mae Donoghue, at the time of its annual Christmas banquet. The St. Louis women point with pride to the fact that their club was organized in 1925; the New York Club, in 1924; and the Chicago Club in 1926.

Wichita: The committee in charge of the annual Christmas party held on December 18th at the Innes Tea Room set out to convince hardboiled credit men to believe in Santa Claus. H. D. Smith, Chairman of the Program and Entertainment Committee, is to be congratulated on the success of his enterprise.

Los Angeles: The Credit Women's Club of Los Angeles took a trip to San Diego this fall and under the leadership of Alma Appel, member of the National Credit Women's Executive Committee, hope to announce a new Women's Club in San Diego in the near future.

Zebraffairs

An official meeting of the R. O. Z., Milwaukee Herd, Chapter 19, was held at the Hotel Wisconsin, Tuesday, December 2, 1941, at 5:45 P. M.

Before the dinner Zebras gathered in the Lounge for forty-five minutes for visiting and refreshments. After the dinner the election of officers took place.

Fred Zens, chairman of the Branding Committee, gave his report and the following officers were elected for the ensuing year:

Exalted Super-zeb—Elmer Kroening; Keepers of the Zoo—Head Keeper—Howard Pihl; Assistant—Roger Johnson; Three Horse Power Burro—Ray Tice; Royal Striper—Emil Timm; Most Noble Zeb—Art Langham; Zebratary—Skip Garness, Association Secretary.

Credit Career

T. E. Davis

T. E. Davis, Credit Manager for John Duer & Sons, Inc. was born in Baltimore, Md. on January 31, 1882, the son of John H. Davis and Flora Bennett Davis. He entered the employment of this firm December 1, 1897 in the capacity of general clerk. In those days, according to Mr. Davis, the bookkeeper was not only Credit Manager but was the office general utility man and as soon as he was taught the office routine he gradually took on the handling of credits. Two weeks after his employment he was checking credits. He took over full charge of the Credit Dept. on April 1, 1906 and has supervised the Dept. continuously since this date. John Duer & Sons, Inc. was founded in 1883 by John Duer who lived until 1902 and was active in this business up to the time of his death. The former credit man for this concern, the first, took over the Department in 1860. He was succeeded by Mr. Davis' predecessor in 1885 who served until 1906 when Mr. Davis took over the Department.

Mr. Davis has handled the credits for this firm under four generations. First, the founder of the business, then his son, Douglas H. Duer, John Duer, Jr. and now Henry T. Duer, grandson of John Duer the founder. There is now a great grandson connected with the business and Mr. Davis states if he lives long enough he will probably work for him.

After the acceptance speech of the new Super-Zeb, El Kroening, announcements of the December 6 Bowling Party and the December 20 Christmas Party were made.

Oakland: The new officers of the Oakland Herd are J. O. Banta, Exalted Superzeb; J. Walter Petersen, Most Noble Zeb; Herb Barnes, Royal Striper; Gordon Graham, Three Horse Power Burro; M. E. Nicholsen, Keeper of the Zoo; Ken Thomson, Zebratary; Al Haskell, elected Oakland's First Royal Scribe. The annual Christmas party was held at the Claremont Hotel on December 13th.

Minneapolis Has Bulletin

Minneapolis: The Minneapolis Association has just adopted a new form of mimeographed news sheet with colored front page and a large number of interesting news items about events and members. One of the items calls attention to the Annual Conference of the Nebraska, Iowa and South Dakota Associations to be held at Lincoln, Nebraska, on February 19 and 20. Another item tells that Mr. and Mrs. W. O. Frost celebrated their golden wedding anniversary recently. Mr. Frost is one of two life members in the Minneapolis Association.

Position Wanted

CREDIT MAN with sixteen years experience in wholesale food products desires change. Age 45, married. Presently employed with National concern. Address Box A-1, Credit and Financial Management, One Park Ave., New York.

MARKETING EXECUTIVE for successful concern with over five hundred retail outlets wishes to return home to the Pacific Northwest. Excellent record in sales management, finance, credits, personnel. Age 42. Happily married. Highest Seattle bank and commercial references. Write in confidence, Box A-2, Credit and Financial Management.

OFFICE AND CREDIT MANAGER: Twenty-five years' experience, capable accountant, correspondent, commercial law, successful collection record, banking and manufacturing experience, finance and business consultation. Address Box A-3, Credit and Financial Management.

CREDIT EXECUTIVE desires position in manufacturing or wholesale line. Has successfully demonstrated ability to handle tactfully the credit problems of a national organization for 12 years. Young, enthusiastic and sales-minded. Harvard graduate and accountant; thoroughly trained in methods of successful credit granting and collections. For full information address Box A-4, Credit and Financial Management.

CREDIT MANAGER—Available January 1, 1942, manufacturing wholesale and retail credits; experienced in all phases. College education; age 30; Chicago preferred. Alert, tactful and capable. Address Box A-5, Credit and Financial Management, One Park Ave., New York.

OFFICE CREDIT MANAGER, Assistant Treasurer. Many years varied experience—background Electrical, Beverages, Rubber, Gasoline and Oil, Paints and Wall Paper. Accustomed to heavy responsibilities. Mature judgment, initiative, loyalty, with the ability to accomplish tasks set before him. Go anywhere, for full information address Box A-6, Credit and Financial Management.

CREDIT AND COLLECTION EXECUTIVE—Desires to market services with growing organization. Knows Credits forward, backward, and through the middle. Age 40, college graduate in Law and Business Administration and 12 years background in credits. Capable of shouldering heavy responsibilities, profitably. Address Box A-7, Credit and Financial Management.

CREDIT, COLLECTION and OFFICE MANAGER of several years experience with thorough knowledge of Commercial Law, and bookkeeping, age 53, not subject to Military duty, desires to make a change; am in excellent physical condition; will locate anywhere; best of references from present and past employers. Don't drink or gamble. Address Box A-7, Credit and Financial Management.

Christmas Celebrations in N A C M

(*Continued from p. 36*)

Richmond: The John Marshall Hotel, remembered with pleasure by all those who attended the National NACM Convention in Richmond in 1936, was the scene of the annual Christmas party of the Richmond Association of Credit Men on December 17th. A big turkey dinner was served at 6:30 followed by dancing. A large number of door prizes which were donated by members of the Association were distributed.

Seattle: The members of the Seattle Association of Credit Men gathered at the New Washington Hotel on Monday, December 15th, for the annual Christmas party and December meeting. An ottoman, donated by the Washington Furniture Mfg. Co., was the special attendance prize. Another feature was the price of $1.40 per person with an extra ticket for the cocktail hour.

Pittsburgh: The annual Christmas party of the Credit Association of Western Pennsylvania was a luncheon affair this year, held on December 23rd at the Hotel Henry ballroom. The committee in charge of the arrangements was under the chairmanship of Murray V. Johnston.

Syracuse: The annual dinner dance and ladies' night party will be held at the Onondago Hotel on January 10th. This party is sponsored by the Syracuse Association of Credit Men and in past years has been highly successful and well attended. Plans are being formulated by Chairman Fred Weymer of the Program Committee, to make this the most successful affair the Association has ever had.

Chattanooga: The CACM December dinner meeting was the annual Christmas party, ladies night and the election of officers and directors. The Christmas party, in charge of Miss Freda Cooper and Mr. E. R. Cullis of the Electric Power Board of Chattanooga, was complete with "Santa Claus," gifts for the CACM members and their wives and a Christmas program which was most amusing. Dr. Spencer McCallie, president and headmaster of the McCallie School, was the principal speaker.

The following officers were elected for the year of 1942: Corbin Woodward, President, The Chattanooga Medicine Co.; C. W. Smith, 1st Vice-President, Ragland Brothers Company; L. A. McWhorter, 2nd Vice-President, Miller-Smith Hosiery Mills.

Birmingham: Officers of the local chapter for the current year are: Pres., Henry P. Hill, Standard Brands, Inc.; First Vice Pres., V. P. Underwood, Birmingham Gas Co.; Second Vice Pres., Mrs. Catherine H. Baker, Connors Steel Co.; Secy.-Treas., Miss Muriel Williams, Todd-Witte Dry Goods Co.; Librarian, Miss Mary Neason, Perfection Mattress & Spring Co.

Cooperation Between Credits and Sales

(*Cont'd from p. 21*) it is not uncommon for customers to be slow in his own price advances. This leaves him without funds to pay his own increased bills. Advancing markets automatically require more stock investment. This lack of proper planning for this extra capital will quickly hamper selling when it means the most to both parties. It is at once obvious that this is the problem for the sales and the credit department working in close conjunction to the end of encouraging the customer in the proper financing of his business so that he may take advantage of market advances in his business without letting him be destroyed by it.

We, as credit men, must never forget that our success runs concurrently with the success of the sales department, and that we cannot begin to function until the sales department has produced business on which we may begin our operations. We must be, in fact, executive in our thoughts as well as in our acts if we want the general management of the firm to recognize in us the right of equal consideration in the general management of the business. I find that the credit department is generally treated by the management and by the sales department in about the same general way as we may look upon ourselves. Our failure to conduct ourselves on a basis of dignified, cooperative effort will immediately set us down as unworthy of our position and will discount us in the eyes of the general management. This will keep us from having the privilege of passing on many of the more fundamental matters of business that ultimately affect our own department as well as that of the general business.

We must, at all times, remember that the customer is the one who speaks the last word in the success of our business. He may talk little about his attitude toward the credit department; he never buys, however, without consideration of the future relations of the credit department of the firm with whom he deals. Whether we like it or not, we cannot approach the question of general business with hope of success unless we think in terms of the overall needs of the customer. Every sale must, if our employers succeed, be the foundation of another sale.

Plan That Cut Credit Period

Reduced Average Account from 120 to 60 Days

By RUEL McDANIEL
Special Writer

Extension of credit over a period of 120 days is unreasonably long in some manufacturing and jobbing lines, but not in the wholesale hardware business. It still is common in this industry because the industry itself is old and it has carried some of its early practices along to the present time.

Yet one wholesale hardware concern that has bridged the years from the pioneering phase of the business to the present saw no reason why this loose credit practice should continue in face of modernization in all other practices, and it did something about it. The concern is the Beck & Gregg Hardware Company, Atlanta, Georgia.

As a result of this program to reduce outstanding accounts, the company cut the average account period from 120 to 60 days, without either cutting off any customers who were on a credit basis before or losing any dealers because of the revised credit policy.

"Not only did the program place our credit accounts in much better position, from a purely credit standpoint, but it doubled the amount of our available operating cash," declares B. W. Brannon, vice-president and sales manager of the company. Credit manager, who carried out the program, is C. W. Bandy, also secretary of the company.

Talked Plainly to Dealers

THE first step in carrying out the plan was to write each dealer who was on a credit basis with the company and explain the necessity of reducing the average outstanding account period. In this same communication, or through the salesmen who called on the accounts, depending on individual circumstances, the company set a credit limit for every customer, regardless of his size or the amount of his purchases. The limit was liberal, taking into account the amount of the customer's business over a long period as shown by the records, and his promptness or laxity in paying his accounts.

At the same time, the company stressed the profit and advantages to the dealer of discounting all his bills, thereby not only keeping his account in perfect condition but making an extra profit out of each order for merchandise.

To the company's 40 salesmen, the company said, "We ought to be able to turn over our credits as fast as we turn our stock, and it is up to you to help us speed credit turnover as well as stock turnover."

Talks at district sales meetings and weekly bulletins to salesmen stressed the importance of the plan to reduce the outstanding period of the average account and pointed out the part the salesmen must play in the program if it should succeed. Every salesman was made an assistant credit manager, in duties if not in title. Henceforth, the company pointed out, it was just as important for the salesman to see that each of his accounts were in good condition from a credit standpoint as it was for him to sell merchandise.

Salesmen Get Account Data

THEREAFTER, each week every salesman received a memorandum, together with duplicate statements, covering slow accounts. Whether or not a customer's credit was good or wobbly did not enter into it. If his account averaged over 60 days old, the salesman received a memorandum and a duplicate statement, showing the exact condition, with instructions to talk to the customer about it.

"We found that the limit we placed on each account was an important factor in automatically reminding a customer that he was behind with his account," Mr. Brannon points out.

The limit set on the account was low enough that it automatically became dissipated through normal buying if the customer permitted his account to average over 60 days. Thus, in many cases, the salesman is able to point to the dealer's credit limit, compare that with what he owes, and convince him that it was time for him to take care of the account, even before he receives a memorandum from the credit department.

"In order to carry out our program, which cut our credit time in half, it was largely a matter of selling dealers on the practicality of the credit limit," Mr. Brannon stresses. "Few customers objected to the limit idea and few thought their limit was too low. Once they were sold on that, the credit business more or less took care of itself. When a dealer saw that he had reached his credit limit, he did not blame us for holding down his purchases, for he realized that the trouble was his own fault—he knew he had not been paying his account as promptly as he should have or he would not have reached his credit limit."

Circumstances Bring Exceptions

NATURALLY, the company takes into consideration any unusual circumstances in enforcing its credit limit rule. If a customer makes an exceptionally large purchase for some large customer whose payment is tied up by logical routine, or when other similar circumstances intrude, the company takes that into account when selling the customer. By working individually with its dealers, the company has managed to bring about this healthy improvement in its credit department without either offending or inconveniencing any of its credit customers, Mr. Brannon declares. This experience by this Atlanta wholesaler brings to mind a slogan which hangs in the office of a successful business man. The slogan was: Plan your work and work your plan."

Index of 1941 Articles

Features Appearing in Credit and Financial Management

New Books on Business

THE MANAGERIAL REVOLUTION. By James Burnham. The John Day Co., Inc., New York. $2.50.

In the nineteen thirties and up to early 1940, the author of this book was one of the leaders of the small Trotskyite wing of the Communist movement in the United States. During that period he was calling upon all to follow Marx and Trotsky, claiming that what they advocated was based on a cold, scientific analysis which led to the conclusion that communism was inevitable.

Now in this book, Prof. Burnham (he has been teaching philosophy in New York University for about 15 years) is telling us that what is coming is not the communist, but the "managerial" revolution. Again he goes to great lengths to convince us that only a cold, scientific analysis of what is happening in the world today has led him to this conclusion.

As in his Trotskyite days, he is still convinced that capitalism will disintegrate and disappear. But now he finds that its place will be taken not by the communism he used to advocate, but by the "managerial" society—a society fashioned not in the image of its present masters, the capitalists (or of their presumptive heirs, the workers) but in that of the "managers," a distinct class, whose economic interests, aspirations for power, and social philosophy, he declares, are entirely different from those of the capitalists or the workers.

No one will lose his time or money in reading this book for Prof. Burnham writes well. There is always the thought that if he was wrong about Trotskyism, he may be wrong about his managerial revolution.

Officers, Directors and National Committees National Association of Credit Men

1941-1942

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MEMPHIS, Tenn.—Memphis A.C.M.; Secy., E. C. Correll, P. O. Box 344, or 802 McCall Bldg.

MILWAUKEE, Wis.—The Milwaukee A.C.M.; Secy.-Mgr., Herman S. Garness, 632-646 Milwaukee Gas Light Co. Bldg., 715 N. Van Buren St.

MINNEAPOLIS, Minn. — Minneapolis A.C.M.; Secy.-Treas., Brace Bennitt, 420 Rand Tower.

NASHVILLE, Tenn. — Nashville A.C.M.; Secy.-Treas., Buford K. Harmon, 705-709 Stahlman Bldg.

NEWARK, N. J.—New Jersey A.C.M.; Secy.-Mgr., William H. Whitney, Rm. 800, 11 Hill St.

NEW HAVEN, Conn. — New Haven A.C.M.; Secy., Geo. H. Preiss, c/o Winchester Repeating Arms.

NEW ORLEANS, La.—New Orleans C.M.A.; Secy.-Treas. & Mgr., Fred L. Lozes, 1007 Queen & Crescent Bldg., Camp St. & Natchez Pl.

NEW YORK, N. Y. — New York C.M.A.; Secy., C. L. Riegel, 354 Fourth Ave.

NORFOLK, Va. — Norfolk Tidewater A.C.M., Inc.; Secy., B. V. Reynolds, c/o Frank G. Ennis Paper Co., 227 Tazewell St.

OAKLAND, Calif.—Wholesalers C.A. of Oakland, California; Secy.-Mgr., Kenneth S. Thomson, Suite 218 Central Bank Bldg., 14th & Bway.

OKLAHOMA CITY, Okla. — Oklahoma Wholesale C.M.A.; Secy.-Mgr., M. D. Pemberton, 901-904 Cotton-Grain Exchange Bldg.

OMAHA, Nebr. — Omaha A.C.M.; Exec.-Mgr., G. P. Horn, 2nd Fl., Sunderland Bldg., 15th & Harney Sts.

OSHKOSH, Wis. — Central Wisconsin A.C.M.; Secy.-Mgr., Charles D. Breon, 311-312 First Nat'l Bank Bldg.

PARKERSBURG, W. Va. — Parkersburg-Marietta A.C.M.; Secy., R. C. Lantz, 1045 24th St.

PEORIA, Ill. — The Peoria A.C.M.; Ass't Secy., Miss E. M. Dunn, 309 S. Jefferson St.

PHILADELPHIA, Pa.—The C.M.A. of Eastern Pennsylvania; Secy., J. Stanley Thomas, Rm. 800 Land Title Bldg., Broad & Chestnut Sts.

PHOENIX, Ariz.—Wholesalers C.A. of Arizona; Secy.-Mgr., R. V. Willis, Post Office Box 3513 or 132 S. Central.

PITTSBURGH, Pa. — The C.A. of Western Pennsylvania; Secy. & Exec. Mgr., H. M. Oliver, 701 Commonwealth Annex.

PORTLAND, Ore. — The Portland A.C.M.; Exec. V. P. & Mgr., E. W. Johnson, 471 Pittock Block.

PROVIDENCE, R. I. — Rhode Island A.C.M.; Exec. Secy. Mgr., Henry T. Farrell, 87 Weybosset St.

RICHMOND, Va.—Richmond A.C.M. Inc.; Acting Secy., Harry F. Boswell, 218 Travelers Bldg., P. O. Box 1178.

ROANOKE, Va. — Roanoke A.C.M.; Secy.-Treas., H. W. Hobson, c/o Roanoke City Mills, Inc., P. O. Box 2045.

ROCHESTER, N. Y.—The Rochester A.C.M., Inc.; Exec. Secy., Jack D. Cogswell, 34 State St., Suite 408.

SACRAMENTO, Calif. — Sacramento-Stockton Chapter, Credit Managers Ass'n of Northern and Central California; Secy.-Mgr., C. J. Morrissey, 322 Forum Bldg., 9th & Kay Sts.

SAGINAW & BAY CITY, Mich. — Northeastern Michigan A.C.M.; Secy.-Treas., F. M. Carle, 212 North Mason St., Saginaw, Mich.

ST. JOSEPH, Mo.—St. Joseph A.C.M.; Secy., Noble Ayers, Jr., c/o Ayers Auto Supply Co., 1302 Frederick Ave., P. O. Box 976.

ST. LOUIS, Mo.—St. Louis A.C.M.; Secy.-Treas. & Mgr., Orville Livingston, 1204 Paul Brown Bldg.

ST. PAUL, Minn.—St. Paul A.C.M.; Secy.-Treas., T. E. Reynolds, Guardian Bldg.

SALT LAKE CITY, Utah — Inter Mountain A.C.M.; Secy.-Mgr., Robert Peel, Suite 321-329 Utah Oil Bldg., P. O. Box 866.

SAN ANTONIO, Tex.—San Antonio Wholesale C.M.A.; Secy., James Caldwell c/o Wm. Van Hoogenhuyze Hdwe Co., P. O. Box 29.

SAN DIEGO, Calif. — San Diego Wholesale C.M.A.; Exec. Secy.-Mgr. & Treas., Lawrence Holzman, 508 Commonwealth Bldg., Fifth & B St.

SAN FRANCISCO, Calif. — Credit Managers Ass'n of Northern & Central California; Secy.-Mgr., O. H. Walker, 333 Montgomery St.

SEATTLE, Wash. — Seattle A.C.M.; Secy.-Mgr. & Treas., C. P. King, 6th Fl. Marion Bldg.

SHREVEPORT, La. — Shreveport Wholesale C.M.A., Inc.; Secy.-Treas. & Mgr., John A. B. Smith, 214 Ardis Bldg., or P. O. Box 371.

SIOUX CITY, Iowa — Interstate A.C.M.; Exec. Mgr., Virgil Combs, 436-439 Davidson Bldg., P. O. Box 1260.

SIOUX FALLS, S. D. — Sioux Falls A.C.M.; Secy., D. D. Maddux, 214 Security National Bank Bldg.

SOUTH BEND, Ind. — South Bend A.C.M.; Exec. Mgr., Kenneth A. Ball, 413 Pythian Bldg.

SPOKANE, Wash. — Spokane Merchants' Ass'n; Secy.-Treas., C. O. Bergan, 718 Realty Bldg.

SPRINGFIELD, Ill. — Springfield A.C.M.; Secy., Miss Eda Mueller, c/o Geo. A. Mueller Co.

SPRINGFIELD, Mass. — Western Massachusetts A.C.M.; Secy., Allister R. Tulloch, 11 Court House Place.

SYRACUSE, N. Y.—Syracuse A.C.M.; Secy., Joseph E. Reese, 404 Herald Bldg., 332 South Warren St.

TACOMA, Wash. — Tacoma A.C.M.; Secy.-Mgr., Edw. B. Lung, P. O. Box 1346, or 505 Perkins Bldg.

TAMPA, Fla.—Tampa A.C.M.; Secy.-Mgr., Duval M. Smith, 311-315 Stovall Professional Bldg. or P. O. Box 2128.

TERRE HAUTE, Ind. — The Terre Haute A.C.M.; Secy., Miss Wanita Gil-

christ, c/o Mid-Continent Petroleum Co., Milks Bldg.

TOLEDO, O.—Toledo A.C.M.; Mgr., C. Howard Saberton, 316 Commerce Guardian Bank Bldg.

UTICA, N. Y.—Utica A.C.M.; Secy., Helen J. Switzer, 2602 Genesee St.

WACO, Texas — Waco Wholesale C.M.A., Inc.; Secy. & Treas., Jack Callan, c/o McLendon Electric & Radio Co.

WASHINGTON, D. C. — Washington A.C.M.; Secy.-Mgr., George A. Wilkinson, The Bowen Bldg., 815 15th St. N. W.

WATERBURY, Conn. — Waterbury A.C.M.; Secy., H. G. Pinter, c/o Chase Brass & Copper Co., 236 Grand St.

WATERLOO, Iowa — Waterloo A.C.M.; Secy., James C. Graham, 314 Insurance Bldg.

WHEELING, W. Va. — Wheeling A.C.M.; Secy., E. K. Pfeil, 204 Nat'l Bank of W. Va. Bldg.

WICHITA, Kans. — The Wichita A.C.M., Inc.; Secy.-Treas., M. E. Garrison, 429 First Nat'l Bank Bldg.

WORCESTER, Mass. — Worcester County A.C.M.; Secy., Gerald McClure, c/o Johnson Steel & Wire Co., 53 Wiser Ave.

YOUNGSTOWN, O. — The Youngstown A.C.M.; Secy., O. E. Johnson, 318 Mahoning Bank Bldg.

Commercial Credit Analysis

(*Continued from page 18*)

excessive in terms of the time required for conversion into finished goods; supplies should not be excessive in terms of their need in the manufacturing process; goods in process should not represent too great a part of total inventories and should be sufficient only to insure a normal continuity of needed products; and finished goods should not be excessive in terms of the time required for conversion into cash or receivables through sales.

Secondly, there should be a balance within the total of the raw materials. Materials should tend to be found in inventories in the same proportions as they are fed to the manufacturing process or appear in the finished product. For instance, if two parts of material A are required in the manufacturing process to one part of material B, then quantities of material A in the inventories should tend to be twice as large as quantities of material B if a balance is to be achieved. Where it is practicable to determine the quantities of each class of materials used in the manufacturing process during the year, it is a comparatively simple matter to check the materials for balance by relating the year-end inventory quantity of each material to the quantities used.

The same principle of balance applies to supplies in the current inventory asset. The various classes of supplies within the total should tend to be proportionate to the ratio in which each is required in the manufacturing process.

The final consideration applies with equal force to the inventories of retailers and wholesalers. Each product or group of products in the total should be proportionate to the ratio of each product or group of products in the volume of sales activity.

Business Thermometer

Wholesalers' Sales, Inventories and Collections for November

A sales gain of 24 per cent for November 1941 over the same month a year ago was reported by 2,870 wholesalers, according to an announcement released today by J. C. Capt, Director of the Census. This spread over last November falls short of the gain of 31 per cent for the first 11 months of 1941. Gains of more than 30 per cent over corresponding months of 1940 were reported from April through October. November sales were 14 per cent under October 1941, a greater than usual seasonal decline.

The tapering off in sales gains reflects the experience of consumer-goods lines. These trades, in general, declined more than seasonally from October, and were characterized by narrowing margins over 1940. The gain over November 1940 for furniture wholesalers was 20 points less than that noted in October. Sales expansions of the grocery and clothing trades contracted 10 points from a month ago. The recession in these wholesale lines this month follows a leveling off in sales gains reported for October and November by the series "Retail Sales, Independent Stores."

While industrial lines continued to lead all other trades in sales gains, only wholesalers of industrial chemicals and paints and varnishes reported a greater spread over 1940 for November than for the year to date. The gains of 30-40 per cent over November 1940 for various heavy lines represent further expansions over the favorable records of these trades a year ago when they were leading the upswing in wholesale trade. For 1941 to date, wholesale trade gains are paced by the following margins: metals (68 per cent), industrial supplies (67 per cent), electrical goods (64 per cent) and machinery, equipment and supplies (60 per cent).

The cost value of inventories on hand at the end of November rose 2 per cent from the beginning of the month. This rise in stocks is counter to the 14 per cent decrease in sales from the previous month. The increase in stocks over November 30, 1940 amounted to 24 per cent, the strongest rise over the corresponding month of the preceding year that has been recorded during the four years this information has been collected. For the first time in fourteen months, the ratio of stocks to sales was as high as for the corresponding month of the preceding year.

Collections on accounts receivable were more favorable in November than during the same month of last year, but declined seasonally from October 1941. Collections equaled 73 per cent of accounts receivable as of November 1, compared with collection percentages of 70 for November 1940 and 79 for October 1941. Accounts receivable were 27 per cent greater on November 1, 1941 than at the same date in 1940, and 2 per cent above October 1, 1941.

This monthly study is conducted jointly by the National Association of Credit Men and the Bureau of the Census. Detailed figures are presented in the following tables and in summary for the United States, and insofar as the data permit without disclosing individual operations, by geographic divisions.

WHOLESALERS' sales and inventories, November, 1941

Kind of Business	Sales—Current Month: Number of firms reporting sales	Sales—Current Month: Percent change Nov. 1941 from Nov. 1940	Sales—Current Month: Percent change Nov. 1941 from Oct. 1941	Sales—Current Month: Nov. 1941 add (000's)	Sales—Year-to-Date: Percent change from 11 Mos. 1940	Sales—Year-to-Date: 11 Mos. 1941 add (000's)	Inventory—End-of-Month (At Cost): Number of firms reporting stocks	Inventory: Percent change Nov. 1941 from Nov. 1940	Inventory: Percent change Nov. 1941 from Oct. 1941	Inventory: Nov. 30, 1941 add (000's)	Stock-Sales Ratios*: Nov. 1941	Stock-Sales Ratios*: Nov. 1940	Stock-Sales Ratios*: Oct. 1941
Automotive supplies	197	+16	—13	5,273	+27	63,819	102	+11	+ 2	4,866	181	187	151
Chemicals (industrial)	21	+56	+ 5	1,512	+46	22,280	14	+46	+ 6	649	55	63	58
Paints and varnishes	65	+54	+ 2	3,346	+36	33,259	17	+19	+ 1	1,078	192	202	162
Clothing and furnishings, except shoes	46	+28	—31	3,187	+38	35,948	23	+16	— 9	1,101	128	130	108
Shoes and other footwear	35	+28	—34	5,670	+40	152,485	22	+22	+ 8	6,952	136	145	83
Coal	12	+30	+ 1	2,152	+39	22,583	—	—	—	—	—	—	—
Drugs and sundries (liquor excluded)	128	+14	—17	19,724	+16	236,469	98	+16	— §	30,054	195	190	161
Dry goods	105	+18	—21	14,412	+34	163,575	59	+24	— 2	19,897	197	182	159
Electrical goods	311	+41	—14	29,937	+64	433,384	274	+50	+ 9	35,361	126	118	99
Dairy and poultry products	23	+ §	+17	2,199	+11	25,036	14	+63	— 6	385	66	45	64
Fresh fruits and vegetables	81	+26	—15	4,482	+17	53,754	45	+22	+19	335	24	25	19
Farm supplies	10	+18	— 7	343	+21	6,572	—	—	—	—	—	—	—
Furniture and house furnishings	62	+24	—23	5,956	+39	97,067	34	+33	+ 2	8,251	216	188	160
Groceries and foods, except farm products	621	+ 7	—15	47,001	+15	711,763	366	+30	+ §	52,501	196	160	165
Full-line wholesalers‡	333	+11	—14	20,703	+15	286,137	189	+30	— §	25,095	200	171	176
Voluntary-group wholesalers	163	+ 2	—16	18,023	+12	267,693	111	+30	+ §	20,055	214	162	175
Retailer-cooperative warehouses	21	+ 8	—17	3,596	+18	45,053	10	+22	— 3	3,502	148	131	128
Specialty lines	104	+15	—15	4,679	+18	112,880	56	+42	+ 7	3,849	148	120	117
Confectionery	31	+14	— 7	717	+16	7,442	17	+28	+ 3	379	107	95	105
Meats and meat products	96	+46	—19	24,231	+32	270,315	59	+35	+ 6	5,134	53	50	41
Beer	55	+20	—14	802	+23	8,853	37	+26	— 5	258	46	43	41
Wines and liquors	37	+12	+23	4,947	+23	57,182	24	+21	+ 8	9,013	218	208	248
Liquor department of other trades†	39	+ 5	+35	5,004	+27	51,918	36	+27	+ 5	11,608	237	194	302
Total hardware group	379	+34	—14	43,585	+47	599,177	248	+20	+ 2	63,854	205	226	175
General hardware	144	+28	—14	25,578	+40	360,537	95	+22	+ 2	46,361	244	254	206
Industrial supplies	130	+45	—11	11,756	+67	160,187	89	+16	+ 1	12,966	146	185	131
Plumbing and heating supplies	105	+38	—17	6,251	+49	78,453	64	+22	+ 4	4,527	138	150	107
Jewelry	39	+26	— 9	3,007	+42	28,081	22	— 6	—10	2,443	156	206	151
Optical goods	25	+22	—13	322	+22	4,079	13	+22	— 1	236	162	156	143
Lumber and building materials	46	+19	—16	3,803	+39	48,256	30	+ 6	— §	2,998	131	157	108
Machinery, equipment and supplies, except electrical	63	+38	—21	3,697	+60	52,621	44	+22	+ §	4,403	165	187	136
Surgical equipment and supplies	28	+27	— 8	788	+20	13,898	13	+21	+ 6	802	150	159	132
Metals	32	+29	—18	4,207	+68	69,876	20	—18	+ §	4,146	134	189	110
Paper and its products	90	+45	—13	7,398	+29	86,583	47	+12	+ §	4,965	131	167	116
Petroleum	10	+37	— 5	21,467	+25	159,219	7	+78	+ 5	1,091	84	53	70
Tobacco and its products	144	+ 5	— 5	13,246	+ 7	162,397	60	+24	+ 3	4,273	66	54	60
Leather and shoe findings	13	+16	—24	209	+19	2,242	—	—	—	—	—	—	—
Miscellaneous	26	+21	—14	2,428	+33	49,118	25	+12	+ 1	3,021	163	198	133
United States	2,870	+24	—14	$285,052	+31	$3,729,251	1,770	+24	+ 2	$280,054	163	160	137

* These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms. — Insufficient data to show separately.
§ Less than 0.5 percent. ‡ Not affiliated with voluntary or cooperative groups. † Chiefly of the wholesale drug trade.

WHOLESALERS' accounts receivable and collections, November, 1941

Kind of Business	Number of firms reporting	Collection Percentages*: November 1941	Collection Percentages*: November 1940	Collection Percentages*: October 1941	Accounts Receivable: Percent change November 1941 from November 1940	Accounts Receivable: Percent change November 1941 from October 1941	Accounts Receivable: As of November 1, 1941 (Add 000)
Automotive supplies	140	69	62	71	+23	+ 3	$5,196
Chemicals (industrial)	20	88	74	91	+17	— 9	1,476
Paints and varnishes	31	45	43	49	+16	— 6	1,395
Clothing and furnishings, except shoes	43	55	44	61	+24	— 3	7,134
Shoes and other footwear	32	49	44	55	+27	—18	13,299
Coal	12	99	80	94	+25	+ 6	2,400
Drugs and sundries (liquor excluded)	113	60	62	68	+22	+ 9	28,090
Dry goods	94	47	47	48	+34	— 2	33,944
Electrical goods	200	71	74	78	+65	— 2	28,738
Dairy and poultry products	15	166	165	154	+23	+ 3	676
Fresh fruits and vegetables	58	144	124	159	+15	+ 3	1,154
Farm supplies	6	102	83	91	+15	— 8	312
Furniture and house furnishings	51	54	52	61	+32	+ 5	10,807
Groceries and foods, except farm products	457	96	95	106	+10	— 4	38,085
Full-line wholesalers	225	89	87	97	+10	— 6	16,687
Voluntary-group wholesalers	132	96	98	108	+ 8	— 2	15,120
Retailer-cooperative warehouses	17	162	168	185	+15	— 3	1,942
Specialty lines	83	89	88	100	+16	— 2	4,336
Confectionery	16	71	65	78	+10	+ 1	397
Meats and meat products	81	161	159	189	+55	— 6	13,860
Beer	15	132	125	140	0	— 4	124
Wines and liquors	26	76	78	79	+13	—14	4,801
Liquor department of other trades	35	72	77	66	+35	—23	6,544
Total hardware group	340	65	58	67	+27	— 1	63,559
General hardware	130	60	53	61	+20	— 2	40,929
Industrial supplies	114	80	75	81	+45	— †	13,787
Plumbing and heating supplies	96	66	64	73	+34	+ 2	8,843
Jewelry	30	19	13	23	+20	+15	6,478
Optical goods	22	66	58	70	+10	— †	438
Lumber and building materials	43	73	72	72	+16	— †	5,323
Machinery, equipment and supplies, except electrical	49	75	67	78	+50	+ 1	4,288
Surgical equipment and supplies	26	51	47	54	+22	+ 2	1,383
Metals	27	101	91	109	+25	— 4	4,186
Paper and its products	79	68	60	69	+28	+ 4	10,471
Petroleum	7	128	119	136	+12	— 8	1,095
Tobacco and its products	92	119	123	129	+11	— †	8,163
Leather and shoe findings	9	47	39	56	+ 9	+ 1	248
Miscellaneous	22	57	50	61	+15	+ 1	4,066
United States	2,191	75	70	79	+27	— 2	$308,130

* Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.
† Less than 0.5 percent.